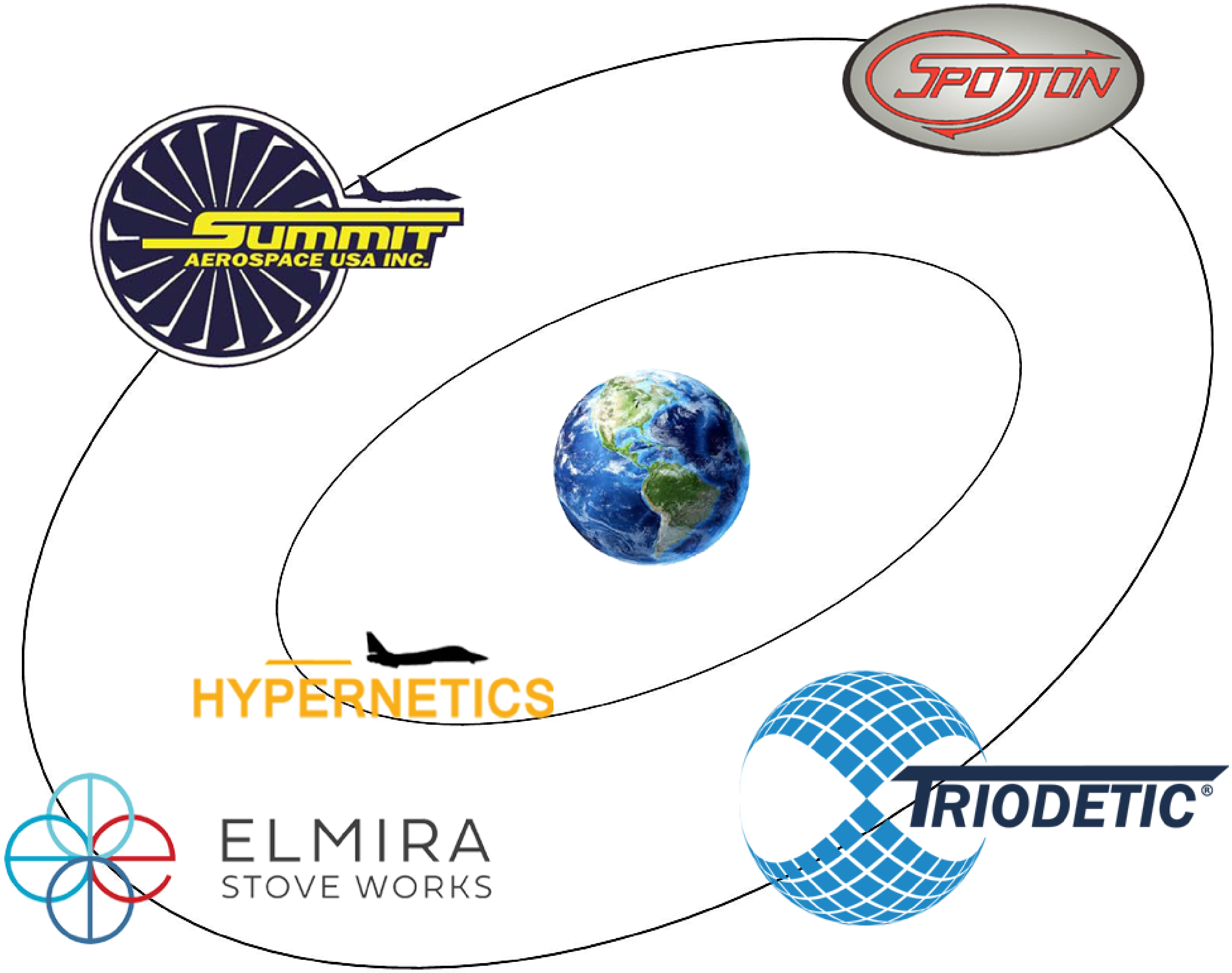
PLAINTREE



Annual Report Fiscal 2023
March 31, 2023

Plaintree Systems Inc.

March 31, 2023 and March 31, 2022

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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, 2023 and 2022, 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, 2023 and 2022 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Company incurred a net loss of $1,944,940 during the year ended March 31, 2023 and, as of that date, the Company's accumulated deficit was $2,337,669 and its negative operating cash flows were $594,923. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matter

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the year ended March 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that the matter described below to be the key audit matter to be communicated in our auditor's report.

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Key Audit Matter - Cont'd.

Impairment of goodwill

Description of matter

As detailed in financial statement note 11, the Company recorded a goodwill impairment loss for the year ended March 31, 2023 of $666,486 resulting in a goodwill balance of $186,816 as at March 31, 2023. Management conducts an impairment assessment annually or more frequently if events or circumstances indicate the carrying value of goodwill may be impaired. An impairment loss is recognized when the carrying value of a cash generating unit (CGU) exceeds the Company's recoverable amount. As at March 31, 2023 the Company's net asset carrying value significantly exceeded the Company's market capitalization with the Company's financial performance for the Elmira CGU not meeting the Company's expectations. As at March 31, 2023 the Company was required to complete it's annual goodwill impairment assessment.

Why the matter is a key audit matter

The determination of a CGU's recoverable amount requires significant judgement when determining the inputs into the calculation of the recoverable amount including estimating the expected future net cash flows and the discount rate. This estimation uncertainty required significant auditor judgement and specialized skills and knowledge to evaluate management's estimate.

How the matter was addressed in the audit

The primary procedures performed to address the key audit matter included the following:

We evaluated the appropriateness of the future net cash flows by reviewing key assumptions used including forecasted growth rates against historical results and industry data, working capital assumptions, planned changes in margin against historical trends and management plans relative to industry data.

We involved a valuation professional with specialized skills and knowledge, who assisted in:

- evaluating the appropriateness of the valuation methodology used by the Company to calculate the recoverable amount, and
- evaluating the Company's discount rate by comparing against discount rate ranges that were independently developed using available market and industry data.

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.

Welch LLP

Chartered Professional Accountants
Licensed Public Accountants

Ottawa, Ontario
July 28, 2023.

Plaintree Systems Inc.

Consolidated statements of financial position
(audited)
(in Canadian dollars)

	March 31, 2023	March 31, 2022
	$	$
Assets		
Current assets		
Cash	**-**	1,911,201
Trade receivables and other receivables	**2,577,668**	2,787,415
Unbilled revenue	**2,021,161**	2,012,856
Taxes receivable	**41,947**	-
Inventories (Note 5)	**4,005,890**	3,093,664
Prepaid expenses and other receivables	**155,528**	331,868
Current portion of mortgage receivable (Note 6)	**5,926**	5,578
	8,808,121	10,142,582
Long-term portion of mortage receivable (Note 7)	**278,305**	284,231
Property, plant and equipment (Note 10)	**3,710,836**	3,047,340
Right of use asset, building (Note 10)	**1,902,569**	2,428,686
Intangible assets (Note 11)	**1,241,177**	1,291,353
Goodwill (Note 11)	**186,816**	853,302
	16,127,824	18,047,494
Liabilities		
Current liabilities		
Bank indebtedness	**1,096,730**	-
Trade and other payables (Note 13)	**2,070,944**	2,614,742
Deferred revenue	**1,547,343**	867,233
Current portion of taxes payable	**-**	170,000
Current portion of long-term debt and lease obligation (Note 7, 8)	**4,768,034**	4,324,490
Current portion of due to related parties (Note 11)	**50,000**	50,000
Current portion of government assistance (Note 9)	**160,694**	74,099
	9,693,746	8,100,564
Long-term debt and lease obligation (Note 7, 8)	**1,340,841**	2,403,761
Deferred government assistance (Note 9)	**355,419**	470,490
Due to related parties (Note 12)	**4,915,643**	4,965,564
Deferred tax liabilities	**-**	340,000
	16,305,648	16,280,379
Shareholders' equity		
Issued capital	**2**	2
Contributed surplus	**2,159,842**	2,159,842
Deficit	**(2,337,669)**	(392,729)
	(177,825)	1,767,115
	16,127,824	18,047,494

Approved by the Board

"David Watson"

"Girvan Patterson"

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

Plaintree Systems Inc.

Consolidated statements of comprehensive earnings
For the years ended March 31, 2023 and March 31, 2022
(audited)
(in Canadian dollars)

	March 31, 2023	March 31, 2022
	$	$
Revenue	**19,943,120**	16,192,530
Cost of sales	**15,801,900**	12,314,213
Gross margin	**4,141,219**	3,878,317
Operating expenses		
Research and development	**1,592,531**	1,593,676
Finance and administration	**2,003,020**	1,518,261
Sales and marketing	**1,884,343**	674,521
Common and Corporate	**0**	-
Bad debts	**-**	28,647
(Gain)/Loss on disposal of assets	**9,750**	61,847
Interest expense	**335,449**	243,105
Gain on foreign exchange	**(96,163)**	(40,886)
	5,728,931	4,079,171
Net earnings (loss) before income taxes and impairment	**(1,587,712)**	(200,856)
Loss on Impairment (note 11)	**666,486**	-
Net earnings (loss) before income taxes	**(2,254,198)**	(200,856)
Income tax expense (note 17)		
Current expense	**30,742**	170,000
Deferred income tax expense	**(340,000)**	(168,971)
	(309,258)	1,029
Net earnings (loss) and comprehensive earnings	**(1,944,940)**	(201,885)
Basic and diluted (loss) per common share (Note 15)	**(0.26)**	(0.13)
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 ended March 31, 2023 and March 31, 2022
(audited)
(in Canadian dollars)

	March 31, 2023	March 31, 2022
	$	$
Operating activities		
Comprehensive earnings	(1,944,940)	(201,885)
Add (deduct) items not affecting cash:		
Depreciation of intangible assets	307,722	212,308
Depreciation of property, plant and equipment	1,310,561	1,209,919
Bad debts	-	28,647
Loss on Impairment	666,486	-
(Gain)/Loss on disposal of assets	9,750	61,847
Deferred tax liabilities	(340,000)	1,029
Write-down of inventory	123,610	89,936
Changes in non-cash operating working capital items		
Deferred revenue	680,111	616,827
Inventories	(1,035,836)	(234,007)
Prepaid expenses and other receivables	176,340	43,866
Trade and other payables	(713,799)	246,325
Trade and other receivables	167,800	(529,903)
Unbilled revenue	(8,305)	(261,204)
Mortgage receivable	5,578	5,250
Cash (used) provided by operations	(594,923)	1,288,955
Investing activities		
Payments to acquire intangible assets	(257,546)	-
Purchase of subsidiaries, net of cash	-	(248,182)
Payments to acquire property, plant and equipment	(285,652)	(453,211)
Cash (used) in investing activities	(543,198)	(701,393)
Financing activities		
Repayment of government assistance	(28,475)	(38,813)
Repayment of long-term debt	(1,567,729)	(325,492)
Proceeds from financing	500,000	465,372
Repayment of capital lease obligations	(723,685)	(777,031)
Repayment of related party borrowings (Note 12)	(49,921)	(67,085)
Cash (used) in financing activities	(1,869,810)	(743,049)
Net cash outflow	(3,007,931)	(155,487)
Net cash (beginning of the year)	1,911,201	2,066,688
Net cash deficiency, end of the period	(1,096,730)	1,911,201

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

Plaintree Systems Inc.

Consolidated Statement of changes in equity
For the years ended March 31, 2023 and March 31, 2022
(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, 2022	12,925,253	1	18,325	1	2,159,842	(392,729)	1,767,115
Net earnings and comprehensive earnings						(1,944,940)	(1,944,940)
Balances at March 31, 2023	12,925,253	1	18,325	1	2,159,842	(2,337,669)	(177,825)

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

On March 30, 2022, Plaintree, through a wholly-owned subsidiary, purchased the Elmira Stove Works business by acquiring all the issued and outstanding share capital of Hendrick Energy Systems Inc. ("HES") and Elmira Direct Limited ("Elmira") for an estimated total purchase price of $3.1 million assuming full earnout payment and all closing date inventory being sold within 24 months of closing. To assist funding the Elmira Stove Works acquisition, Plaintree increased its bank facility by a $1.5 million term loan with its banker, of which $500,000 was advanced on the closing of the Elmira Stove Works transaction with the remaining advances of $500,000 each on November 30, 2022 and on May 3, 2023. All the proceeds from the advances will be used to fund the payment of the purchase price to the vendors of Elmira Stove Works.

In April 2022, the Elmira Stove Works business was moved to the Company's Arnprior, Ontario facilities to continue its operations from there. On April 14, 2022 Elmira Stove Works completed a short-form amalgamation with two Plaintree subsidiaries and is continuing under the corporate name Elmira Stove Works Inc. It is a wholly-owned subsidiary of Plaintree Systems Inc.

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 July 26, 2023.

(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, and Elmira Stove Works Inc. (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.

(In Canadian dollars)

2. Basis of presentation - Cont'd.

(d) *Going concern*

These consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As at March 31, 2023 the Company had an accumulated deficit of $2,337,669 and, for the period then ended, the Company incurred a total comprehensive loss of $1,944,940. As at March 31, 2023, the Company was offside on its bank borrowing covenants, and as a result, it has had to include $3,112,488 of payments previously classified as long term debt as a current liability. This resulted in working capital being reduced by $3,112,488 which caused working capital fall to negative $885,624 with no cash on hand. The Company has in place a credit facility of up to $4,000,000 through its bank based on acceptable trade receivables and inventory (amount outstanding as at March 31, 2023, $1,488,681 which includes a letter of credit in the amount of $100,000 USD). The Company's analysis of forecasted sales and expenses indicate improvement in both sales and cash flow as a result of contracts bid and/or signed and their expected margins on these projects. As a result, the Company believes that it has sufficient cash resources to meet its obligations. However, should (i) the Company's bank credit facility fail to be available or fail to have sufficient availability to meet the Company's cash requirements; (ii) forecasts fall short of expectations in one or more of the Company's divisions; and/or (iii) an unprofitable event occurs, which is unanticipated, this will impact the Company's ability to generate sufficient cash to meet its requirements and this will impact its ability to continue as a going concern. These consolidated financial statements do not reflect any adjustments that would be necessary if the going concern basis was not appropriate. Such adjustments, if required, may be material.

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

3. Significant accounting policies - Cont'd.

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.

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 recoverable amount, 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 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

3. Significant accounting policies - Cont'd.

Intangible assets - Cont'd.

The Company's policy is to review all long-lived assets, including 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, except for Elmira where standard products are sold.

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.

Where products sold are not customized, the company recognizes revenue at a point in time upon delivery of the goods.

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.

3. Significant accounting policies - Cont'd.

Revenue recognition - Cont'd.

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.

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.

3. Significant accounting policies - Cont'd.

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.

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.

3. Significant accounting policies - Cont'd.

Financial instruments - Cont'd.

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.

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.

Leases

Operating lease payments net of any lease inducements are recognized as an expense in the consolidated statements of loss and comprehensive loss on a straight-line basis over the lease term. At inception of a contract, the Corporation 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 Corporation recognizes a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at an amount equal to 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 right-of-use asset is subsequently measured at cost net of accumulated depreciation. Depreciation is calculated on a straight-line basis over the shorter of the lease term or useful economic life of the asset. The lease term includes periods covered by an option to extend if the Corporation is reasonably certain to exercise that option.

3. Significant accounting policies - Cont'd.

Leases - Cont'd.

The lease liability is initially measured at the present value of the unpaid lease payments as at the commencement date, discounted using the Corporation's incremental borrowing rate unless the interest rate implicit in the lease is known. The Corporation's incremental borrowing rate for a lease is the rate that the Corporation would pay to borrow an amount necessary to obtain an asset of a similar value to the right-of-use asset on a collateralized basis over a similar term.

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured if there is a change in future lease payments arising from a change in an index or rate; there is a change in the Corporation's estimate of the amount expected to be payable under a residual value guarantee; or the Corporation changes its assessment of whether it will exercise a purchase, extension or termination option. On remeasurement, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or directly in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Corporation has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

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.

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.

3. Significant accounting policies - Cont'd.

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 (CGU) is the higher of its fair value, less costs of disposal (FVLCD), and its value in use (VIU). 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.

Impairment of Goodwill

The impairment test for cash generating units ("CGUs") to which goodwill is allocated is based on the higher of VIU and FVLCD of the CGU, determined in accordance with the expected cash flow approach. The calculation is based on assumptions including, but not limited to, the cash flow growth rate and the discount rate. See Note 11.

Determination of CGUs

Management is required to use judgement in determining which assets or group of assets make up appropriate CGUs for the level at which goodwill and intangible assets with indefinite lives are tested for impairment. A CGU is defined as the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

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.

3. Significant accounting policies - Cont'd.

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; impairment of long-lived assets and goodwill, 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.

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	933,425
Bonus payment	402,943
Inventory payments	1,024,983
Less net working capital adjustment	(181,907)
Total	$ 2,679,444

(In Canadian dollars)

4. Acquisition of Subsidiaries - Cont'd.

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	853,302
Total assets acquired	3,704,282
Accounts payable	181,805
Income taxes payable	16,871
Deferred revenue	486,162
Deferred tax liability	340,000
Total liabilities acquired	718,838
Net purchase price	$ 2,679,444

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.

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 pro forma - unaudited
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 higher of $500,000 and 8% of sales from June 1, 2022 and May 31, 2023. Existing inventory is payable by way of monthly payments by either the sale of inventory or 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.

(In Canadian dollars)

4. Acquisition of Subsidiaries - Cont'd.

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, 2023 are non-interest bearing, and unsecured. The carrying value of the note is summarized below.

	2023	2022
Amount payable	$ 1,136,993	$ 2,433,321
Less: imputed interest	-	(179,665)
Total	1,136,993	2,253,656
Current portion	1,136,993	1,645,533
Non-current portion	$ -	$ 608,123
Fixed portion	$ 500,000	$ 854,028
Contingent portion	$ 636,993	$ 1,399,628

5. Inventories

	March 31, 2023	March 31, 2022
	(audited)	(audited)
	$	$
Raw materials	3,252,570	2,398,089
Work in process	665,022	636,652
Finished goods	88,299	58,923
	4,005,890	3,093,664

The cost of inventories recognized as an expense during the year was $15,801,900 ($12,312,213 in 2022). The total carrying value of inventory as at March 31, 2023, 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 $123,610 in fiscal 2023 ($89,936, in 2022) to reflect where the carrying amount exceeded net realizable value. The Company had write ups in the year totaling $13,379 ($37,723 in 2022).

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

	$
2024	5,926
2025	278,305
Net mortgage receipts	284,231

7. Long-term debt

	March 31, 2023 (audited)	March 31, 2022 (audited)
	$	$
Non-revolving loan payable in monthly blended installments of principal and interest, $8,143, at a rate of 5.663%, secured by general security agreement, maturing April 2024.	**94,726**	184,369
Non-revolving loan payable ($172,944 USD) in monthly blended installments of principal and interest, $9,883 USD, at a rate of 4.1%, secured by general security agreement, maturing April 2024.	**161,609**	284,100
Promissory notes	**500,000**	933,425
Contingent purchase consideration	**636,993**	1,320,231
Non-revolving loan payable in monthly installments of principal , $12,531.33 at a rate of prime + 1%, secured by general security agreement, maturing March 2027.	**901,629**	500,000
Non-revolving loan payable in monthly blended installments of principal and interest, $15,148, at a rate of 3.640%, secured by general security agreement, maturing March 2026.	**515,871**	675,701
Deferred financing fees	**(87,370)**	(106,640)
	2,723,457	3,791,186
Current portion	**(2,723,457)**	(3,183,064)
	0	608,122

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

	$
2024	2,723,457
2025	0
Net mortgage receipts	2,723,457

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

Long-term debt excluding the promissory notes and contingent purchase consideration totaling $1,673,834 are subject to certain covenants, including a debt service covenant which the Company was not in compliance as at March 31, 2023. As a result, $1,673,834 is included in the current portion of long-term debt.

(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. One of the building leases is with a related party, as detailed in Note 12. 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, 2023:

	Factory Equipment Leases	Building Leases	Total
Fiscal 2024	461,531	633,697	1,095,228
Fiscal 2025	336,786	634,352	971,138
Fiscal 2026	258,976	609,750	868,726
Fiscal 2027	267,191	152,438	419,628
Thereafter	350,423	-	350,423
Total future minimum lease payments	1,674,906	2,030,236	3,705,142
Inputed interest	(205,310)	(114,414)	(319,724)
Total lease liabilities	1,469,596	1,915,822	3,385,418
Less: current portion	(1,469,596)	(574,981)	(2,044,577)
Non-current portion	-	1,340,841	1,340,841

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

	Factory Equipment Leases	Building Leases	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)	(189,311)	(227,753)
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	1,869,034	1,890,991

Interest expense on lease obligations for the year ended March 31, 2023 was $115,110 (2022 - $106,259). Variable lease payments for operating costs not included in the measurement of lease obligations for the year ended March 31, 2023 was $8,485 (2022- $9,894).

Expenses relating to short-term leases and leases of low value assets for the year ended March 31, 2023 were $8,485 (2022 - $94,584). Total cash outflow for leases was $1,154,097 (2022 - $997,011), including $1,038,987 (2022 - $890,752) of principal payments on lease obligations.

(In Canadian dollars)

8. Lease Obligation - Cont'd.

The following table presents the future contractual cash flows for short-term leases at March 31, 2023:

2024	$ 3,535

Included in the factory equipment leases are $1,438,654 of leases subject to certain covenants, including a debt service covenant which the Company was not in compliance as at March 31, 2023. As a result, $1,438,654 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	419,093	45,496	464,589
Loan adjustment for exchange	34,956	3,790	38,746
Repayments	(67,220)	-	(67,220)
Accretion	12,257	(12,257)	-
March 31, 2023	399,086	37,029	436,115
Current portion	(68,041)	(12,653)	(80,694)
Balance	331,045	24,376	355,421

(In Canadian dollars)

9. Government assistance - Cont'd.

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

	$
2024	68,041
2025	69,069
2026	70,112
2027	71,171
2028	72,246
2029 and thereafter	85,476
Net loan re-payments	436,115

The company did not record any government assistance in fiscal 2023. 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.

During fiscal 2022 the Company accepted short term, interest free loans in the amount of $120,000 under the Canada Emergency Business Account ("CEBA"). The forgivable portions total $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, 2023 recorded in the current portion of government assistance:

2024	$ 80,000

10. Property, plant and equipment

	Factory equipment	Computer equipment	Furniture	Vehicles	Lease improvements	Building	Land	Total
	$	$	$	$	$	$	$	$
Cost, balance								
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**
Additions	912,983	10,888	-	-	465,812	68,008	-	1,457,691
Disposals	(15,000)	-	-	-	-	-	-	(15,000)
March 31, 2023	**10,908,499**	**1,121,659**	**202,313**	**367,390**	**2,313,010**	**3,933,069**	**124,557**	**18,970,499**
Depreciation, balance								
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)**
Depreciation	(495,824)	(15,751)	-	(3,733)	(119,592)	(675,661)	-	(1,310,561)
Disposal	5,250	-	-	-	-	-	-	5,250
March 31, 2023	**(8,460,300)**	**(1,101,434)**	**(202,313)**	**(366,919)**	**(1,582,829)**	**(1,643,296)**	**-**	**(13,357,091)**
Carrying amount,								
March 31, 2023	**2,448,199**	**20,224**	**(0)**	**471**	**730,182**	**2,289,773**	**124,557**	**5,613,405**
March 31, 2022	**2,040,790**	**25,088**	**(0)**	**4,204**	**383,961**	**2,897,426**	**124,557**	**5,476,028**

(In Canadian dollars)

10. Property, plant and equipment - Cont'd.

Included in factory equipment are right of use assets with a cost of $2,991,661 and accumulated amortization of $1,992,026 (2022 - cost of $2,059,916 and accumulated amortization of $763,317) and included in building are right of use assets with a cost of $2,925,285 and accumulated depreciation of $1,022,716 (2022 – cost of $2,857,278 and accumulated amortization of $428,592). Refer to Note 8 for a breakdown of the Company's lease obligations.

11. Intangibles

		Brand	Goodwill	Software	Customer Relationship and Non-compete	Total
Cost, balance				$	$	$
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**
	Additions			257,544		257,545
	Impairment		(666,486)			(666,485)
	Disposals				(1,313,270)	(1,313,269)
March 31, 2023		**655,000**	**186,816**	**449,719**	**616,000**	**1,907,538**
Accumulated Depreciation, balance						
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)**
	Depreciation	(65,500)	-	(180,622)	(61,600)	(307,722)
	Disposals				1,313,270	1,313,270
March 31, 2023		**(65,500)**	**-**	**(352,444)**	**(61,600)**	**(479,544)**
Carrying amount,						
March 31, 2023		**589,500**	**186,816**	**97,275**	**554,400**	**1,427,994**
March 31, 2022		**655,000**	**853,302**	**20,353**	**616,000**	**2,144,655**

Two intangible items were fully amortized in the prior fiscal year and removed during the current fiscal year. Non-compete with a cost of $10,000 (FY22 $10,000) and Customer Relationship with a value of $1,303,270 (FY22 $1,303,270). As of March31, 2023 all of the intangibles and goodwill are attributed to the Applied Electronics business segment.

The company has five Cash Generating Units: Triodetic, Spotton, Elmira Stove Works, Hypernetics and Summit Aerospace USA. Elmira Stove Works manufactures custom vintage-inspired kitchen appliances for the North American consumer market. The goodwill carrying value is allocated to the Elmira Stove Works CGU, and the Applied Electronics operating segment (see Note 16).

(In Canadian dollars)

11. Intangibles - Cont'd.

Management reviewed the recoverable amount of goodwill and intangible assets for the CGU. The recoverable amount was assessed by reference to the value in use ("VIU") calculation. The recoverable value was assessed by reference to discounted cash flow projections reflecting management's assessment of projected operating results for a five-year period, including projected revenue growth rates of 5% reflecting growth from improved productivity and a revised pricing strategy. The applied discount rate (WACC) of 28.4% per annum was influenced by interest rates, equity, and size risk premium rates. Cash flows beyond that five-year period have been extrapolated using a steady 2% terminal growth rate. Future estimated growth rates were validated by reviewing reasonableness of pricing, independent market and industry data, and sales achieved to date.

Management determined that an impairment charge was required to write off goodwill of $666,486 with no further impact on intangible assets. The recoverable amount was assessed by a value in use assessment as the fair value less costs of disposal calculation was expected to provide similar results when using a discounted cash flow model. The recoverable amount of the CGU amounted to $1,942,949 as at March 31, 2023.

12. Due to related parties

	March 31, 2023	March 31, 2022
	(audited)	(audited)
	$	$
Due to senior officers	**3,815,593**	3,865,785
Dividends payable	**60,000**	60,000
Due to Targa Group Inc, covertible debentures	**247,672**	247,672
Due to Tidal Quality Management Inc.	**398,388**	398,116
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
	4,965,643	5,015,564
Less: current portion	**(50,000)**	(50,000)
	4,915,643	4,965,564

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

As at March 31, 2023, a balance of $3,815,593 ($2,579,959 principal and $1,235,634 interest); March 31, 2022 - $3,865,785 ($2,630,151 principal and $1,235,634 interest in 2022) 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 $50,192 were repaid to senior officers. As of March 31, 2023, $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.

12. Due to related parties - Cont'd.

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 2022) of the dividend remains outstanding as at March 31, 2023. 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, 2023, interest in the amount of $247,672 ($247,672 in 2022) 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, 2023, a balance of $398,388 ($215,500 rent arrears and $182,888 interest); March 31, 2022 - $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, 2023, $NIL ($NIL in 2022) remained outstanding on the line of credit with accumulated interest of $242,598 ($242,598 in 2022) outstanding for a balance of $242,598 ($242,598 in 2022). 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 2022) 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 2022), on a loan from Targa remains outstanding as of March 31, 2023. The balance of the amount is classified as long-term, as the related party has agreed with third-party lenders to postpone repayments.

Rents paid to Tidal Quality Management Corp during the year ended March 31, 2023 totaled $668,843 (2022 - $551,003). The above related party transactions are measured at their exchange amount, which is the amount agreed to by the parties. The rent payments were applied as a reduction of one of the building leases detailed in Note 8.

During the year two directors provided consulting services for consideration of $35,000, which has been recorded as a Finance and Administration expense in the year.

(In Canadian dollars)

13. Trade and other payables

Trade and other payables are comprised of the following:

	March 31, 2023 (audited)	March 31, 2022 (audited)
	$	$
Accounts payable	**1,398,350**	1,550,911
Accrued liabilities	**252,090**	531,761
Salaries and benefits payable	**420,504**	532,070
	2,070,944	2,614,742

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, 2023, the accrued and unpaid dividends on Class A preferred shares were $21,190,000 ($19,724,000 in 2022).

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, 2023 is presented below:

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

(In Canadian dollars)

14. **Share capital** - Cont'd.

The following table summarizes information about stock options outstanding at March 31, 2023:

	Options Outstanding			
Exercise Price	Number outstanding at March 31, 2023	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number excercisable at March 31, 2023
$	#		$	#
0.11	880,000	6.72	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, 2023 and 2022, diluted earnings per share equals basic earnings per share due to the anti-dilutive effect of options and convertible instruments.

	March 31, 2023 (audited)	March 31, 2022 (audited)
	$	$
Net profit (loss) from operations	**(1,944,940)**	(201,885)
Cumulative dividends on preferred shares - per annum	**(1,466,000)**	(1,466,000)
Net (loss) attributed to common shares (basis and diluted)	**(3,410,940)**	(1,667,885)
Basic and diluted weighted average shares outstanding	**12,925,253**	12,925,253
Basic and diluted (loss) per share from operations	**(0.26)**	(0.13)

(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 $5,613,405 (2022 - $5,476,026) in property, plant and equipment, $5,110,145 (2022 - $4,145,092) is located in Canada and $503,261 (2022 - $1,330,934) in the United States. All the Company's intangible assets are primarily located in Canada.

Revenue by division

	March 31, 2023	March 31, 2022
	(audited)	(audited)
	$	
Applied Electronics	8,800,687	5,695,438
Specialty Structures	11,142,433	10,497,092
	19,943,120	16,192,530

Revenue by geographical location

	March 31, 2023	March 31, 2022
	(audited)	(audited)
	$	
Canada	9,012,997	8,499,200
United States	10,168,237	7,394,396
Other	761,886	298,934
	19,943,120	16,192,530

Net earnings (loss) before taxes by division

	March 31, 2023	March 31, 2022
	(audited)	(audited)
	$	
Applied Electronics	(2,425,021)	(333,122)
Specialty Structures	170,823	132,266
	(2,254,198)	(200,856)

Loss on impairment by division

	March 31, 2023	March 31, 2022
	(audited)	(audited)
	$	
Applied Electronics	666,486	0
Specialty Structures	0	0
	666,486	-

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

	March 31, 2023	March 31, 2022
	(audited)	(audited)
Number of customers	2	2
% of total revenue	12%, 13%	14%, 10%

(In Canadian dollars)

16. Business segment information - Cont'd.

Assets by division

	March 31, 2023	March 31, 2022
	(audited)	(audited)
Applied Electronics	**9,750,342**	7,345,790
Specialty Structures	**6,377,483**	10,701,704

Intangibles by division

	March 31, 2023	March 31, 2022
	(audited)	(audited)
Applied Electronics	**1,427,993**	2,144,655
Specialty Structures	**(0)**	0

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:

	2023	2022
	$	$
Accounting depreciation in excess of tax	**(497,000)**	109,000
Intangible assets	**(1,106,000)**	(1,287,000)
Research and development expenses not deducted for tax	**15,338,000**	15,478,000
Losses available to offset future income taxes	**10,440,000**	5,045,000
Capital losses	**363,000**	-
Capital leases	**216,000**	(211,000)
Accruals	**2,471,000**	2,775,000
Other	**340,000**	57,000
	27,565,000	21,966,000

(In Canadian dollars)

17. Income taxes - Cont'd.

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, 2023 are as follows:

	2022	Recognized in P&L	2023
Deferred tax assets			
Losses available to offset future taxes		340,000	340,000
Deferred tax liabilities			
Accounting Depreciation in Excess of Tax	(340,000)		(340,000)
Net Deferred taxes per financial statements	(340,000)	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 15,337,537 (2022 -$15,477,960) for Canadian federal and provincial tax purposes. These are available without expiry to reduce future years' taxable income.

As at March 31, 2023, the Company has approximately $33,000 (2022 - $33,000) 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
	33,000

(In Canadian dollars)

17. **Income taxes** - Cont'd.

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:

	2023	2022
	$	$
Expected income tax expense (benefit)	**(559,353)**	(50,214)
Changes in unrealized deferred tax assets	**52,643**	(426,394)
Future rate changes	**885**	2,955
True up on current taxes	**(51,093)**	4,568
True up on future taxes	**6,999**	(71,544)
Permanent differences	**177,687**	66,035
Foreign rate differential	**2,813**	(2,244)
Deductible temporary differences previously unrecognized	**60,161**	517,941
Other (minimum tax, elimination, etc.)	**-**	(40,074)
Income tax expense	**(309,258)**	1,029
Current income tax expense	**30,742**	170,000
Future income tax expense	**(340,000)**	(168,971)
Income tax expense	**(309,258)**	1,029

The Company has non-capital losses available to reduce future years' Canadian federal taxable income totaling approximately $10,062,000 (2022 - $4,346,000). These potential benefits expire as follows:

2031	557,000
2032	513,000
2033	523,000
2034	582,000
2035	1,370,000
2036	1,556,000
2037	409,000
2038	398,000
2039	71,000
2040	269,000
2041	151,000
2042	63,000
2043	3,600,000
	10,062,000

The Company has U.S. losses of approximately $362,000 (2022 - 336,000), which begin to expire in 2036 and $100,000 of losses that never expire.

(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. A warranty provision of $35,417 has been recognized ($NIL in 2022).

Bank facilities

The Company has in place a credit facility of up to $4,000,000 CAD through its bank based on acceptable trade receivables and inventory. The total amount available to the Company as at March 31, 2023 was $3,562,842 CAD of which $1,353,351 was in use and a letter of credit in the amount of US$100,000 ($135,330 CAD) leaving $2,074,161 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 $1,237,982 CAD was in use at March 31, 2023. 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, 2023 $214,947 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 $1,000,000 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, 2023. 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, 2023:

Payments due by period

	Total	Current	2025	2026	2027	Thereafter
	$	$	$	$	$	$
Bank indebtedness	1,096,730	1,096,730				
Accounts payable and accrued liabilities	2,070,944	2,070,944				
Due to related parties - convertible debentures	247,672		247,672			
Due to related parties - other	4,273,980	50,000	4,223,980			
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	1,981,688	609,750	609,750	609,750	152,438	
Lease commitments	1,600,606	437,931	317,886	257,712	248,222	338,854
Promissory notes	500,000	500,000				
Long-term debt	2,827,133	1,351,790	397,019	398,727	221,543	458,054
	15,042,743	6,117,145	6,240,298	1,266,189	622,203	796,908

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.

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 $4,598,829 ($6,233,325 in 2022). As at March 31, 2023, trade receivables were comprised of two companies totaling 21% and 23% respectively (two companies totaling 10% and 27% respectively in 2022. As at March 31, 2023, the Company's ageing of accounts receivable was approximately 90% (83 % -2022) under sixty days, 3% (15% in 2022); over 60 - 90 days and 7% (2% March 31, 2022) over 90 days and the allowance for doubtful accounts was $NIL ($NIL in 2022).

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, 2023, the Company had a foreign exchange gain of $(99,040) (gain of $40,886 in 2022). 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 $245,356 and $267,429 for the fiscal years ended March 31, 2023 and 2022, respectively.

19. Financial instruments - Cont'd.

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

US MONETARY

	March 31, 2023 (audited)	March 31, 2022 (audited)
	$	$
Cash	1,295,206	1,551,470
Trade receivables	810,709	1,638,805
Unbilled revenue	838,859	651,670
Prepaid Expenses and Other Receivables	50,180	91,598
Trade and other payables	(373,224)	(325,690)
Long-term debt	(620,890)	(933,563)
	2,000,840	2,674,289

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, 2023, 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:

	2023	2022
	$	$
Wages and Consulting Fees	**259,379**	267,331
Health benefits	**15,906**	9,567
	275,285	276,898

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.

(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. The company also receives deposits related to revenue recorded at a point in time. Deferred revenue is generally comprised of progress billings related to the Specialty Structures and Applied Electronics contracts.

The following table presents the changes in deferred revenue:

	$
Opening balance, March 31, 2022	867,233
Revenue Recognized	(852,941)
Amounts invoiced and deferred as at March 31, 2023	1,533,051
Balance, March 31, 2023	1,547,343

22. Personnel expenses

The following table presents the personnel expenses of the Company:

	2023	2022
	$	$
Salaries including bonuses	**6,664,459**	5,299,559
Benefits	**864,225**	614,670
Commissions	**252,307**	67,326
	7,780,990	5,981,555

Personnel expenses are net of government wage assistance related to COVID-19 during fiscal 2022 (note 9).

23. Depreciation

The following table presents the depreciation expenses by function:

	2023	2022
	$	$
Cost of goods sold	**1,125,580**	1,064,824
Selling and marketing	**270,864**	86,337
Research and development	**97,834**	215,843
General and administrative	**1,249**	71,948
	1,495,527	1,438,952

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

PLAINTREE SYSTEMS INC.

For the three and twelve months ended March 31, 2023 and March 31, 2022

Date: July 31, 2023

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 three and twelve months ended March 31, 2023 and 2022. 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 July 26, 2023, 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; supply and/or staffing issues in relation to ongoing COVID concerns; and Plaintree's success in integrating acquired businesses. 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.*

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 Applied Electronics division, consisting of the Hypernetics division, Summit Aerospace USA Inc. ("Summit Aerospace") and the Elmira Stove Works business, and a Specialty Structures division consisting of the Triodetic business, Spotton Corporation. The Hypernetics business manufactures avionic components for various applications including aircraft antiskid braking, aircraft indicators, solenoids and permanent magnet alternators. The Triodetic business is a design/build manufacturer of steel, aluminum, and stainless steel specialty structures such as commercial domes, free form structures, barrel vaults, space frames, and industrial dome coverings. Summit Aerospace specializes in the high-end machining of super-alloys for the aircraft and helicopter markets. Spotton's business involves the design and manufacture of high-end custom hydraulic and pneumatic cylinders for the industrial, automation and oil and gas markets. The Elmira Stove Works business manufactures custom vintage-inspired kitchen appliances for the North American consumer market.

Acquisition of Elmira Stove Works

On March 30, 2022, Plaintree, through a wholly-owned subsidiary, purchased the Elmira Stove Works business by acquiring all the issued and outstanding share capital of Hendrick Energy Systems Inc. ("HES") and Elmira Direct Limited ("Elmira") for an estimated total purchase price of $3.1 million assuming full earnout payment and all closing date inventory being sold within 24 months of closing. To assist funding the Elmira Stove Works acquisition, Plaintree increased its bank facility by a $1.5 million term loan with its banker, of which $500,000 was advanced on the closing of the Elmira Stove Works transaction, All the proceeds from the advances will be used to fund the payment of the purchase price to the vendors of Elmira Stove Works.

In April 2022, the Elmira Stove business was moved to the Company's Arnprior, Ontario facilities to continue its operations from there. On April 14, 2022 Elmira Stove Works completed a short-form amalgamation within the Plaintree subsidiaries and is continuing under the corporate name Elmira Stove Works Inc., a wholly-owned subsidiary of Plaintree Systems Inc.

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

Control Activities

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

Selected Annual Financial Information

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

($000s, except per share amounts)

	March 31, 2023	March 31, 2022
	(audited)	(audited)
Revenue	**19,943**	16,193
Net earnings (loss) and comprehensive earnings (loss)	**(1,945)**	(202)
Net earnings (loss) attributed to common shareholders	**(3,411)**	(1,668)
Basic and diluted earnings (loss) per share	**(0.26)**	(0.13)

($000s, except per share amounts)

	March 31, 2023	March 31, 2022
	(audited)	(audited)
	$	$
Total assets	**16,128**	18,047
Total liabilities	**16,306**	16,280
Long-term liabilities	**6,612**	8,180
Cash dividends declared per share	**nil**	nil

Results from Operations

($000s)

	March 31, 2023	March 31, 2022	Change from
	(audited)	(audited)	
	$	$	$
Revenue	19,943	16,193	3,751
Cost of sales	15,802	12,314	3,488
Gross margin	4,141	3,878	263
	21%	24%	
Operating expenses:			
Research and development	1,593	1,594	(1)
Finance and administration	2,003	1,518	485
Sales and marketing	1,884	675	1,210
Bad debts	-	29	(29)
Gain on disposal of assets	10	62	(52)
Loss on Impairment	666	-	666
Interest expense	335	243	92
(Gain) on foreign exchange	(96)	(41)	(55)
	6,395	4,079	2,316
Net earnings and comprehensive earnings	(2,254)	(201)	(2,053)

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 applied electronic products, 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 $5,613,405 (March 31, 2022 - $5,476,026) in property, plant and equipment and Right of Use Asset, building $5,110,145 (March 31, 2022 - $4,145,093) is located in Canada and $503,261 (March 31, 2022 - $1,330,934) in the United States. All the Company's intangible assets are primarily located in Canada.

Revenue by division

	Three months ending			
	March 31, 2023	March 31, 2022	**March 31, 2023**	March 31, 2022
	(audited)	(audited)	**(audited)**	(audited)
	$		**$**	
Applied Electronics	**2,332,488**	1,580,254	**8,800,687**	5,695,438
Specialty Structures	**1,065,142**	3,586,899	**11,142,433**	10,497,092
	3,397,630	5,167,153	**19,943,120**	16,192,530

Revenue by geographical location

	Three months ending			
	March 31, 2023	March 31, 2022	**March 31, 2023**	March 31, 2022
	(audited)	(audited)	**(audited)**	(audited)
	$		**$**	
Canada	**191,399**	2,431,258	**9,012,997**	8,499,200
United States	**2,940,876**	2,536,635	**10,168,237**	7,394,396
Other	**265,355**	199,260	**761,886**	298,934
	3,397,630	5,167,153	**19,943,120**	16,192,530

Net earnings (loss) before taxes by division

	Three months ending			
	March 31, 2023	March 31, 2022	**March 31, 2023**	March 31, 2022
	(audited)	(audited)	**(audited)**	(audited)
	$		**$**	
Applied Electronics	**(2,253,478)**	120,268	**(2,425,021)**	(333,122)
Specialty Structures	**(1,081,504)**	(679,818)	**170,823**	132,266
	(3,334,982)	(559,550)	**(2,254,198)**	(200,856)

Loss on impairment by division

	Three months ending			
	(audited)	(audited)	**March 31, 2023**	March 31, 2022
	(audited)	-	**(audited)**	(audited)
	$		**$**	
Applied Electronics	**666,486**	0	**666,486**	0
Specialty Structures	**0**	0	**0**	0
	666,486	-	**666,486**	-

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

	Three months ending			
	March 31, 2023	March 31, 2022	**March 31, 2023**	March 31, 2022
	(audited)	(audited)	**(audited)**	(audited)
Number of customers	**1**	1	**2**	2
% of total revenue	**20%**	13%	**12%, 13%**	14%, 10%

Assets by division

	March 31, 2023	March 31, 2022
	(audited)	(audited)
Applied Electronics	**9,750,341**	7,345,790
Specialty Structures	**6,377,483**	10,701,704

Intangibles by division

	March 31, 2023	March 31, 2022
	(audited)	(audited)
Applied Electronics	**1,427,993**	2,144,655
Specialty Structures	**(0)**	0

Revenues

Total product revenue from ongoing operations for the first twelve months of fiscal 2023 was $19,943,120 compared to $16,192,530 for the first twelve months of fiscal 2022.

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

Plaintree's Applied Electronics Division revenues from operations increased in the first twelve months of fiscal 2023 to $8,800,687 compared to $5,695,438 in the first twelve months of fiscal 2022.

Plaintree's Specialty Structures Division revenues from operations increased to $11,142,433 in the first twelve months of fiscal 2023 from $10,497,092 in the first twelve months of fiscal 2022.

Gross Margin

Total gross margin dipped slightly during the first twelve months of fiscal 2023, at 21% compared to 24% for fiscal 2022 which included $NIL, ($250,157 – March 31, 2022) in Government wage and rent subsidies. Included in cost of goods sold are expenses related to operations to relocate and establish the production processes of the Elmira Stove Works business and an impairment charge of $666,486 against goodwill.

Operating Expenses

Research and development expenses

Research and development expenses were $1,592,531 and $1,593,676 for the first twelve months of fiscals 2023 and 2022, respectively. Included are Government wage and rent subsidies of $NIL, ($111,073 – March 31, 2023) related to COVID-19 assistance received. Research and development expenditures consist primarily of development engineering and personnel expenses.

Finance and administration expenses

Finance and administration expenses were $2,003,020 and $1,518,591 for the first twelve months of fiscals 2023 and 2022, respectively. Included are Government wage and rent subsidies of $NIL, ($40,641 – March 31, 2022) related to COVID-19 assistance received. Finance and administration expenses consist primarily of costs associated with managing the Company's finances, which included financial staff, legal and audit activities.

Sales and marketing expenses

Sales and marketing expenses were $1,884,343 and $674,521for the first twelve months of fiscals 2023 and 2022, respectively. Included are Government wage and rent subsidies of $NIL, ($25,424 – March 31, 2022) related to COVID-19 assistance received. These expenses consisted primarily of personnel and related costs associated with Company's sales and marketing departments, which include sales commissions, advertising, travel, trade shows and other promotional activities. The acquisition of Elmira accounts for a majority of the increase over the prior year.

Loss on impairment

Loss on impairment consists of a write-down of Goodwill related to the Elmira Stove Works acquisition. Loss on impairment amounted to $666,486 and $0 for the first twelve months of fiscals 2023 and 2022 respectively. Management determined that an impairment charge was required to write off goodwill of $666,486 with no further impact on intangible assets. The recoverable amount was assessed by a value in use assessment as the fair value less costs of disposal calculation was expected to provide similar results when using a discounted cash flow model. The recoverable amount of the CGU amounted to $1,942,949 as at March 31, 2023.

Interest expense

Interest expense consists of interest incurred on bank debt. Interest expenses amounted to $335,449 and $243,105 for the first twelve months of fiscals 2023 and 2022 respectively. The majority of the Company's debt accrues interest at variable rates based on the Company's bank prime lending rate of interest.

Gain on foreign exchange

The Company reported a gain on foreign exchange of $(96,163) and ($40,886) in the first twelve months of fiscals 2023 and 2022, 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 and comprehensive loss for first twelve months of fiscal 2023 was $(3,410,940) and Net loss and comprehensive loss for fiscal 2022 was $(1,667,885). 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, 2023 the accrued and unpaid dividends on the Class A preferred shares were $21,190,000 (March 31, 2022 - $19,724,000).

Quarterly Results

The following table sets out selected unaudited consolidated financial information for the last eight quarters in fiscals 2023 and 2022:

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

	Mar-31 2023 Q4 2023	Dec-31 2022 Q3 2023	Sept 30 2022 Q2 2023	Jun 30 2022 Q1 2023	Mar 31 2022 Q4 2022	Dec 31 2021 Q3 2022	Sept 30 2021 Q2 2022	June 30 2021 Q1 2022
	$	$	$	$	$	$	$	$
Revenue	3,397	6,238	4,861	5,447	5,168	3,111	4,271	3,643
Net earnings (loss) and total comprehensive earnings (loss)	(3335)	831	220	339	(366)	(560)	462	262
Net (loss) earnings attributed to common shareholders	(4,801)	(269)	(513)	(28)	(733)	(926)	95	(104)
Basic and diluted (loss) earnings per share	(0.37)	(0.02)	(0.04)	(0.00)	(0.06)	(0.07)	0.01	(0.01)

Liquidity and Capital Resources

	March 31, 2023 (audited)	March 31, 2022 (audited)	Change
	$	$	$
Cash	**(1,097)**	1,911	(3,008)
Working Capital	**(886)**	2,042	(2,928)

	March 31, 2023 (audited)	March 31, 2022 (audited)	Change
	$	$	$
Net cash provided by (used in) :			
Operating activities	**(595)**	1,289	(1,884)
Investing activities	**(543)**	(701)	158
Financing activities	**(1,870)**	(743)	(1,127)

Going Concern Note

During the fiscal year ending March 31, 2023 the Company undertook several new initiatives including integration of the recently acquired Elmira Stove Works operations. The relocation and startup of the Elmira business, including the recruiting and training of new employees, introduction of new equipment and processes, as well as supply chain challenges weighed heavily on operational results due to higher expenses and lower than expected revenue from Elmira. The year also saw the timing of large and profitable projects pushed out beyond the fiscal year end. These factors significantly resulted in the Company ending fiscal 2023 with a total comprehensive loss of $1,944,940 including $666,486 in non-cash impairment charges and income tax recovery. As a result, the Company was offside on its bank borrowing covenants, requiring that $3,112,488 of long-term debt be reclassified and recorded as a current liability. This reclassification, as required under IFRS, resulted in the Company's net working capital falling to negative $885,624. Based on the negative working capital position and non-compliance with bank covenants, management of the Company deemed it necessary to issue a going concern note to its financial statements as its ability to continue as a going concern is dependent on factors that are beyond its direct control. One such factor is such the continuation of credit facilities from the Company's bank. The Company's Bank is currently considering a request made by the Company for a waiver of its bank covenant breaches. A waiver would permit a reclass of $3,112,488 of current debt back to long term significantly improving the Company's financial position. The bank currently maintains the right to call for repayment of the Company's credit facilities, however the Company expects to receive the covenant waiver and continue to have access to its credit facilities. The Company's analysis of forecasted sales and expenses indicate an early fiscal 2024 and sustained improvement in both sales and cash flow as a result of contracts bid and/or signed and their expected margins on these projects. As a result, the Company believes that it has sufficient cash resources to meet its obligations.

Cash

As at March 31, 2023, the Company had a cash balance of $(1,096,730) a decrease of $(3,007,931) from cash balance of $1,911,201 in March 31, 2022.

Working Capital

Working capital represents current assets less current liabilities. As at March 31, 2023, the Company had working capital of $(885,625) compared to a working capital of $2,042,018 at March 31, 2022.

Operating activities

Cash (used) by operating activities during the first twelve months of fiscal 2023 was ($594,923) representing a decrease of $(1,883,878) from cash provided of $1,288,955 for the respective period during fiscal 2022. Cash used during the period related to both Inventory and Unbilled Receivables

Investing activities

Cash (used in) investing activities during the first twelve months of fiscal 2023 was $(543,198) representing an decrease of $158,195 in investing activities from cash (used in) investing activities of $(701,393) in the respective period during fiscal 2022. Cash used in investing activities during fiscal 2023 relates primarily to the purchases of manufacturing equipment and website development.

Financing activities

Cash (used in) financing activities during the first twelve months of fiscal 2023 was $(1,869,810) representing an decrease of $(1,126,761) from cash (used in) of $(743,049) during the respective period in fiscal 2022. Cash used in financing activities during the first half of fiscal 2023 relates primarily to the repayment of long-term debt and leases.

Outlook

The Company has in place a credit facility of up to $4,000,000 CAD through its bank based on acceptable trade receivables and inventory. The total amount available to the Company as at March 31, 2023 was $3,562,842 CAD of which $1,353,351 was in use and a letter of credit in the amount of US$100,000 ($135,330 CAD) leaving $2,074,161 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 $1,316,694 CAD was in use as at March 31, 2023. 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, 2023 $214,947 CAD was available (Note 8 Lease obligations). The Company also has in place a term loan of $1.5 million CAD to assist with the payment obligations to the vendors of the Elmira Stove Works business of which $500,000 was available for use as at March 31, 2023. The Company believes that it will have access to sufficient funding to meet its operation needs over the next fiscal year (However, please see Going Concern Note discussion above).

Due to related parties

	March 31, 2023	March 31, 2022
	(audited)	(audited)
	$	$
Due to senior officers	**3,815,593**	3,865,785
Dividends payable	**60,000**	60,000
Due to Targa Group Inc, covertible debentures	**247,672**	247,672
Due to Tidal Quality Management Inc.	**398,388**	398,116
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
	4,965,643	5,015,564
Less: current portion	**(50,000)**	(50,000)
	4,915,643	4,965,564

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

As at March 31, 2023, a balance of $3,815,593 ($2,579,959 principal and $1,235,634 interest); March 31, 2022 - $3,865,785 ($2,630,151 principal and $1,235,634 interest) remained owing to senior officers of the Company. The parties agreed to discontinue interest payments accruing on balances as of April 1, 2016. During the first twelve months of fiscal 2023 payments in the amount of $50,192 were repaid to senior officers. As of March 31, 2023, $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 – March 31, 2022) of the dividend remains outstanding as at March 31, 2023. 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, 2023, interest in the amount of $247,672 ($247,672 – March 31, 2022) 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, 2023, a balance of $398,388 rent arrears consist of $215,227 from March 31 2022 and $182,888 interest); March 31, 2022 - $398,116 ($215,227 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, 2023, $NIL ($NIL – March 31, 2022) remained outstanding on the line of credit with accumulated interest of $242,598 ($242,598 – March 31, 2022) outstanding for a balance of $242,598 ($242,598 – 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.

Interest in the amount of $66,581 ($66,581 – March 31, 2022) remained outstanding on a demand loan with Targa. The balance of the amount is classified as long-term, as the related party has agreed with third-party lenders to postpone repayments. Accumulated interest in the amount of $134,812 ($134,812 – March 31, 2022), on a loan from Targa remains outstanding as of March 31, 2023. The balance of the amount is classified as long-term, as the related party has agreed with third-party lenders to postpone repayments.

Rents in the form of lease payments paid to Tidal Quality Management Corporation during the twelve months ended March 31, 2023, totaled $668,843 ($551,003 – March 31, 2022). 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 and a sales office and showroom in Elmira, ON for the Elmira Stove Works Inc.

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 July 26, 2022 the following equity instruments of the Company were issued and outstanding:

Common Shares: 12,925,253

Class A Preferred Shares: * 18,325

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

Convertible Debentures:** $nil principal value

** The Company has issued various tranches of convertible debentures to related parties for total outstanding value at March 31, 2023 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