

Consolidated financial statements of

**Plaintree Systems Inc.**

March 31, 2015 and March 31, 2014  
(in Canadian dollars)

# **Plaintree Systems Inc.**

March 31, 2015 and March 31, 2014

## Table of contents

Independent Auditor's Report.....	1-2
Consolidated statements of financial position .....	3
Consolidated statements of comprehensive loss.....	4
Consolidated statements of cash flows.....	5
Consolidated statements of changes in equity.....	6
Notes to the consolidated financial statements.....	7-30



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## Independent Auditor's Report

To the Shareholders of Plaintiff Systems Inc.

We have audited the accompanying consolidated financial statements of Plaintiff Systems Inc., which comprise the consolidated statements of financial position as at March 31, 2015 and March 31, 2014, and the consolidated statements of comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Plaintiff Systems Inc. as at March 31, 2015 and March 31, 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Deloitte LLP*

Chartered Professional Accountants  
Licensed Public Accountants

July 20, 2015

# Plaintree Systems Inc.

Consolidated statements of financial position  
as at March 31, 2015 and March 31, 2014  
(in Canadian dollars)

	2015	2014
	\$	\$
<b>Assets</b>		
Current assets		
Cash	57,757	-
Trade receivables	4,000,471	1,885,105
Unbilled revenue	580,374	1,895,308
Inventories (Note 5)	2,191,417	1,293,747
Prepaid expenses and other receivables	199,379	177,231
Note receivable (Note 6)	357,207	401,858
Due from related party (Note 9)	-	1,096,641
	<b>7,386,605</b>	<b>6,749,890</b>
Property, plant and equipment (Note 11)	6,280,844	6,460,981
Intangible assets (Note 10)	925,752	1,057,936
	<b>14,593,201</b>	<b>14,268,807</b>
<b>Liabilities</b>		
Current liabilities		
Bank indebtedness	-	24,776
Trade and other payables (Note 13)	2,286,597	1,661,739
Deferred revenue	308,146	866,067
Current portion of long-term debt (Note 7)	3,517,984	4,041,993
Current portion of obligations under capital lease (Note 8)	46,620	-
Current portion of deferred government assistance (Note 9)	19,277	-
Current portion of government assistance (Note 9)	40,498	-
	<b>6,219,122</b>	<b>6,594,575</b>
Obligations under capital lease (Note 8)	164,084	-
Repayable government assistance (Note 9)	685,921	-
Deferred government assistance (Note 9)	139,618	-
Due to related parties (Note 12)	5,600,732	7,579,907
	<b>12,809,477</b>	<b>14,174,482</b>
<b>Shareholders' equity</b>		
Issued capital (Note 14)	2	2
Contributed surplus (Note 12)	2,090,750	-
(Deficit) retained earnings	(307,028)	94,323
	<b>1,783,724</b>	<b>94,325</b>
	<b>14,593,201</b>	<b>14,268,807</b>

Approved by the Board

"David Watson"

"Girvan Patterson"

See accompanying notes to the consolidated financial statements.

# Plaintree Systems Inc.

## Consolidated statements of comprehensive loss years ended March 31, 2015 and March 31, 2014

(in Canadian dollars)

	2015	2014
	\$	\$
<b>Revenue</b>	<b>19,318,783</b>	20,803,602
Cost of sales	15,816,555	18,100,488
Gross margin	3,502,228	2,703,114
Operating expenses		
Research and development	1,451,386	1,407,291
Finance and administration	1,167,432	1,229,013
Sales and marketing	931,209	705,028
Bad debt	16,521	119,074
Interest expense	497,921	287,714
Gain on disposal of property, plant and equipment	(3,072)	(1,985)
(Gain) loss on foreign exchange	(60,218)	100,192
	4,001,179	3,846,327
Net loss before other income (expenses)	(498,951)	(1,143,213)
Other (income) expenses		
Forgiveness of debt owing to related party (Note 12)	(97,600)	-
Write-down of due to related party (Note 12)	-	568,158
Net loss and comprehensive loss	(401,351)	(1,711,371)
Basic and diluted (loss) per common share (Note 15)	(0.14)	(0.24)
Weighted average common shares outstanding	12,925,253	12,925,253

See accompanying notes to the consolidated financial statements.

# Plaintree Systems Inc.

Consolidated statements of cash flows  
years ended March 31, 2015 and March 31, 2014  
(in Canadian dollars)

	2015	2014
	\$	\$
<b>Cash flows from operating activities</b>		
Net loss	(401,351)	(1,711,371)
Add (deduct) items not affecting cash:		
Write-down of inventories	37,084	213,093
Write-down of due from related party	-	568,158
Forgiveness of debt owing to related party	(97,600)	-
Depreciation of intangible assets	136,631	134,127
Depreciation of property, plant and equipment	868,173	655,909
Gain on sale of property, plant and equipment	(3,072)	(1,985)
Changes in non-cash operating working capital items		
Trade receivables	(1,944,644)	(133,741)
Unbilled revenue	1,314,934	(870,755)
Inventories	(519,721)	(160,506)
Prepaid expenses and other receivables	(7,089)	16,520
Due from related parties	-	(154,454)
Trade and other payables	519,263	(170,227)
Deferred revenue	(557,921)	391,069
Interest paid on related party debt	257,890	195,688
Cash provided by (used in) operations	(397,423)	(1,028,474)
<b>Cash flows from investing activities</b>		
Acquisition of Spotton Corporation, net of cash acquired	118,123	-
Repayment of notes receivable	44,651	-
Payments to acquire intangible assets	(4,447)	(1,619,394)
Payments to acquire property, plant and equipment	(657,578)	(9,160)
Proceeds from disposal of property, plant and equipment	35,607	34,805
Net cash used in investing activities	(463,644)	(1,593,749)
<b>Cash flows from financing activities</b>		
Proceeds from long-term debt	213,536	2,004,086
Proceeds from repayable government assistance	911,952	-
Repayment of government assistance	(26,638)	-
Repayment of long-term debt	(524,009)	(1,636,098)
Repayment of capital lease obligations	(2,833)	-
Increase in related party borrowings	371,591	2,083,700
Net cash provided by financing activities	943,599	2,451,687
Net cash inflow	82,533	(170,536)
(Bank indebtedness) cash, beginning of the year	(24,776)	145,760
Cash (bank indebtedness), end of the year	57,757	(24,776)

See accompanying notes to the consolidated financial statements.

# Plaintree Systems Inc.

## Consolidated statements of changes in equity years ended March 31, 2015 and March 31, 2014

(in Canadian dollars)

	Number of common shares	Issued capital \$	Number of Class A preferred shares <sup>(1)</sup>	Issued capital \$	Contributed surplus \$	Retained earnings (deficit) \$	Shareholders' equity \$
Balances at March 31, 2013	12,925,253	1	18,325	1	-	1,805,694	1,805,696
Net income and comprehensive income	-	-	-	-	-	(1,711,371)	(1,711,371)
Balances at March 31, 2014	12,925,253	1	18,325	1	-	94,323	94,325
Forgiveness of debt (Note 12)	-	-	-	-	2,090,750	-	2,090,750
Net loss and comprehensive loss	-	-	-	-	-	(401,351)	(401,351)
<b>Balances at March 31, 2015</b>	<b>12,925,253</b>	<b>1</b>	<b>18,325</b>	<b>1</b>	<b>2,090,750</b>	<b>(307,028)</b>	<b>1,783,724</b>

<sup>(1)</sup> Class A preferred shares have a 8% cumulative dividend, calculated on redemption amount, redeemable at the option of the Company at any time at \$1,000 per share plus accrued dividends, non-voting.

See accompanying notes to the consolidated financial statements.



# Plaintree Systems Inc.

## Notes to the consolidated financial statements

March 31, 2015 and March 31, 2014

(In Canadian dollars)

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### 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 CSE under "NPT". The Company operates an Electronics division (the Hypernetics business, the free space optics business and Summit Aerospace USA Inc business) and a Specialty Structures division (the Triodetic business, Arnprior Fire Trucks Corp. and Spotton Corporation). Plaintree was historically a designer and manufacturer of wireless connections transmitting data on beams of light versus conventional radio frequency, commonly referred to as free space optics ("FSO"). The Hypernetics business manufactures avionic components for various applications including aircraft antiskid braking, aircraft instrument indicators, solenoids and permanent magnet alternators. The Triodetic business is a design/build manufacturer of steel, aluminium and stainless steel specialty structures such as commercial domes, free form structures, barrel vaults, space frames and industrial dome coverings. On May 23, 2013 the Company completed the acquisition of a 16,300 sq. ft. manufacturing facility in Pocono Summit, PA, where they will continue the operation of Summit, a wholly-owned subsidiary of Plaintree which specializes in the high end machining of super-alloys for the aircraft and helicopter markets. On April 1, 2014 Plaintree acquired 100% of the outstanding shares of Spotton Corporation ("Spotton") (Note 4). Spotton's business involves the design and manufacture of high end custom hydraulic and pneumatic valves and cylinders for the industrial and oil and gas markets. 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 20, 2015.

#### b) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for share-based compensation and the purchase price allocations related to 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., Plaintree Systems Corp. and Triodetic Inc. (U.S. companies) and Arnprior Fire Trucks Corp., Spotton Corporation and Triodetic Ltd. (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.

### 3. Significant accounting policies

The significant accounting policies include the following:

#### *Inventories*

Inventories are valued using a weighted average cost 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.

# Plaintree Systems Inc.

## Notes to the consolidated financial statements

March 31, 2015 and March 31, 2014

(In Canadian dollars)

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### 3. Significant accounting policies (continued)

#### *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

#### *Intangible assets*

The Company's intangible assets consist of a customer relationship, a non-competition agreement and software. Software is 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

#### *Impairment of assets*

The Company's policy is to review all long-lived assets for impairment annually or whenever events or changes in circumstances indicate that the carrying amount as an asset may not be recoverable. The Company will record an impairment of the assets 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, with the tax effects of any change in estimate accounted for on a prorated basis.

#### *Revenue recognition*

Revenue from product sales is recorded on shipment when all significant contractual obligations have been satisfied provided evidence of an arrangement exists, the price to the customer is fixed and determinable and collection is probable.

Revenue on fixed-price contracts is recognized based on the estimated percentage-of-completion 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.

# Plaintree Systems Inc.

## Notes to the consolidated financial statements

March 31, 2015 and March 31, 2014

(In Canadian dollars)

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### 3. Significant accounting policies (continued)

#### *Revenue recognition (continued)*

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.

In addition, a provision for potential warranty claims is recorded at the time of sale, based on warranty terms and prior claims experience. Extended warranty contracts are sold separately from the product and the associated revenue is recognized over the term of the agreement.

#### *Business combinations*

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 statements of comprehensive income (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 statement of operations.

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's end for monetary items and at exchange rates at the transaction date for non-monetary items measured at historical costs.

#### *Stock option plans*

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

#### *Investment tax credits*

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

#### *Research and development expenditures*

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

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

# Plaintree Systems Inc.

## Notes to the consolidated financial statements

March 31, 2015 and March 31, 2014

(In Canadian dollars)

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### 3. Significant accounting policies (continued)

#### *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 revenues and expenses during the reporting period.

#### Revenue recognition

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

Revenue for fixed price contracts based on the estimated percentage-of-completion of services rendered reflects management's estimates of the percentage-of-completion 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.

#### Useful lives of property, plant and equipment and intangible assets

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

#### Functional currency

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

#### Estimation uncertainty

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

# Plaintree Systems Inc.

## Notes to the consolidated financial statements

March 31, 2015 and March 31, 2014

(In Canadian dollars)

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### 3. Significant accounting policies (continued)

#### *Critical accounting estimates and judgements (continued)*

##### Income taxes

The Company's deferred income tax assets and liabilities are recognized for the future tax consequences attributable to tax loss carryforwards 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.

##### *Earnings (loss) per share*

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. (Loss) income attributable to common shareholders is equal to net (loss) income less the dividends accumulated on the preferred shares. Diluted (loss) earnings per common share is calculated by dividing the applicable net (loss) 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 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*

All financial instruments are initially recognized at fair value including transaction costs, except those at fair value through profit or loss ("FVTPL") for which transaction costs are expensed when incurred.

##### Loans and receivables

Loans and receivables are subsequently accounted for at amortized cost using the effective interest method.

##### Other liabilities

Other liabilities are subsequently recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments.

##### Fair value through profit or loss

Financial asset or liability that is held-for-trading measured at fair value each period with gains and losses through income.

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics, and management intent as outlined below:

Cash is designated as at FVTPL which is measured at fair value, with changes in fair value being recorded income at each period end.

Trade accounts receivable are classified as loans and receivables and accounts payable and accrued liabilities classified as other financial liabilities and are measured at amortized costs with interest accretion recorded in net income. Due to the short-term nature of these assets and liabilities, the carrying amounts approximate fair value.

All loans, bank loans, bonds and debentures or similar debt are measured at amortized cost with interest accretion recorded in net income.

# Plaintree Systems Inc.

## Notes to the consolidated financial statements

March 31, 2015 and March 31, 2014

(In Canadian dollars)

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### 3. Significant accounting policies (continued)

#### *Financial instruments (continued)*

Fair value through profit or loss (continued)

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The accounting standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The inputs fall into three levels that may be used to measure fair value:

Level 1 - Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 - Applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.

Level 3 - Applies to assets or liabilities for which there is no observable market data.

#### **New Standards effective April 1, 2014**

##### *Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)*

Amendments to IAS 32 Financial Instruments: Presentation clarify certain aspects because of diversity in application of the requirements on offsetting, focus on four main areas:

- the meaning of "currently has a legally enforceable right of set-off";
- the application of simultaneous realisation and settlement;
- the offsetting of collateral amounts;
- the unit of account for applying the offsetting requirements.

The IAS 32 amendments were applied retrospectively for on April 1, 2014 with no impact.

##### *IFRIC 21 Levies ("IFRIC 21")*

Provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain.

The Interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. It provides the following guidance on recognition of a liability to pay levies:

- The liability is recognised progressively if the obligating event occurs over a period of time
- If an obligation is triggered on reaching a minimum threshold, the liability is recognised when that minimum threshold is reached.

IFRIC 21 was applied beginning April 1, 2014 with no impact.

##### *Amendments to IFRS 2 - Share-based Payments ("IFRS 2")*

In the second quarter of 2014, the IASB issued Amendments to IFRS 2. The amendments change the definitions of "vesting condition" and "market condition" in the standard, and add definitions for "performance condition" and "service condition". They also clarify that any failure to complete a specified service period would result in a failure to satisfy a service condition. This would result in the reversal, in the current period, of compensation expense previously recorded reflecting the fact that the employee failed to complete a specified service condition. These amendments were effective for transactions with a grant date on or after July 1, 2014. There was no impact to the Company in implementing this amendment.

# Plaintree Systems Inc.

## Notes to the consolidated financial statements

March 31, 2015 and March 31, 2014

(In Canadian dollars)

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### 3. Significant accounting policies (continued)

#### ***New Standards effective April 1, 2014 (continued)***

##### *IAS 36 Impairment of Assets ("IAS 36")*

In May 2013, the IASB amended IAS 36 to clarify the requirement to disclose information about the recoverable amount of assets for which an impairment loss has been recognized or reversed. The IAS 36 amendments were applied retrospectively on April 1, 2014 with no impact

#### ***New and revised IFRS in issue but not yet effective***

The following is a list of standards and amendments that have been issued but are not yet effective and have not yet been adopted by the Company:

##### *IFRS 9 Financial Instruments ("IFRS 9")*

IFRS 9 was issued by the International Accounting Standards Board ("IASB") in November 2009 and October 2010 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held-for-trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative hosts not within the scope of the standard. IFRS 9 has been tentatively determined to have an effective date of January 1, 2018. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

##### *IFRS 15 Revenue from Contracts with Customers ("IFRS 15")*

IFRS 15 was issued by the IASB on May 28, 2014, and will replace IAS 18, Revenue, IAS 11, *Construction Contracts*, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the Standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognized revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual period beginning on or after January 1, 2018. The Company is currently evaluating the impact of IFRS 15 on its consolidated financial statements.

### 4. Acquisition of Spotton

On April 1, 2014, Plaintree Systems Inc. completed its acquisition of 100% of the outstanding shares of Spotton Corporation ("Spotton"), a related party under IAS 24, for a purchase price of \$120 in cash and forgiveness of a receivable balance owing from Spotton to Plaintree of \$1,096,641. Spotton is a complementary manufacturing business that was determined to have synergy benefits to the Company. The acquisition was treated as a business combination under IFRS 3; therefore, the results of operations included in the Company's consolidated financial statements are from the date of the acquisition. The fair value of the receivables approximates the gross contractual amounts receivable. There is \$NIL in amounts not expected to be collected.

# Plaintree Systems Inc.

## Notes to the consolidated financial statements

March 31, 2015 and March 31, 2014

(In Canadian dollars)

### 4. Acquisition of Spotton (continued)

The final purchase price was allocated to the identifiable assets acquired and liabilities assumed based on the fair value of the total consideration as follows:

	\$
Cash	118,243
Trade receivables	170,722
Other receivables	420,003
Inventories	415,032
Prepaid expenses	15,009
Property, plant and equipment	62,973
Trade accounts payable, accrued liabilities and other	(105,221)
	<u>1,096,761</u>
Less: Purchase price	<u>(1,096,761)</u>
	-

### 5. Inventories

	2015	2014
	\$	\$
Raw materials	<b>1,330,233</b>	505,003
Work in process	<b>697,297</b>	600,148
Finished goods	<b>163,887</b>	188,596
	<u><b>2,191,417</b></u>	<u>1,293,747</u>

The cost of inventories recognized as an expense during the year was \$5,208,258 (2014 - \$6,794,059). The total carrying value of inventory at March 31, 2015 was pledged as security through general security agreements under bank lines of credit and related party liabilities.

The Company wrote down its inventories by \$37,084 in fiscal 2015 (2014 - \$213,093) to reflect where the carrying amount exceeded net realizable value. The Company had write ups in the year totaling \$122,260 (2014 - \$120,255).

### 6. Note receivable

On March 28, 2012, the Company sold one of its two manufacturing buildings that were recorded as assets held-for-sale. The building sold for \$470,000. The Company assumed a vendor take-back first mortgage of \$446,509 for a three-year term. As at March 31, 2015, a balance of \$357,207 (2014 - \$401,858) remained owing to the Company with principal payments, beginning in year two, amortized over ten years plus interest at prime plus 2% per annum.

The note was paid in full in May 2015.



# Plaintree Systems Inc.

## Notes to the consolidated financial statements

March 31, 2015 and March 31, 2014

(In Canadian dollars)

### 7. Long-term debt

	2015	2014
	\$	\$
Bank loan, bearing interest at a rate equal to the bank's LIBOR rate plus 3.5%, due in monthly principal installments of \$4,028, secured by a general security agreement, maturing May 2020.	806,050	756,960
Bank loan, bearing interest at a rate of prime plus 1.25% per annum, payable in monthly principal and interest installments of \$4,221, secured by a general security agreement, maturing October 2027.	305,662	337,385
Term loan payable in monthly blended installments of \$733, bearing interest at a rate of prime minus 0.65% per annum, secured by a mortgage on a property, maturing November 2016.	91,305	97,871
Demand non-revolving loan payable in monthly blended installments of principal and interest, at a rate of prime plus 1.5%, secured by general security agreement, maturing five years from the date of each draw-down or February 2022.	71,927	80,618
Demand non-revolving loan payable in monthly blended installments of principal and interest, at a rate of prime plus 1.5%, secured by a general security agreement, maturing five years from the date of each draw-down or October 2021.	281,437	317,464
Demand non-revolving loan payable in monthly blended installments of principal and interest, at a rate of prime plus 1.5%, secured by a general security agreement, maturing ten years following full draw-down of the loan or June 2016.	189,942	251,497
US\$36,957, interest at LIBOR plus 3% per annum, maturing January 2017.	1,357,465	1,675,073
Demand non-revolving loan payable in monthly blended installments of \$9,906, interest at a rate of 3.63%, secured by a general security agreement, maturing June 2017.	320,645	398,576
Term non-revolving loan payable in monthly installments of \$3,161, bearing interest at the rate of prime plus 1.25% per annum, secured by a general security agreement, maturing September 2018.	93,551	126,549
	<b>3,517,984</b>	<b>4,041,993</b>
Current portion	<b>(3,517,984)</b>	<b>(4,041,993)</b>
	-	-

# Plaintree Systems Inc.

## Notes to the consolidated financial statements

March 31, 2015 and March 31, 2014

(In Canadian dollars)

### 7. Long-term debt (continued)

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

	\$
2016	944,278
2017	944,278
2018	535,560
2019	154,171
2020	154,171
Thereafter	785,526
	<u>3,517,984</u>

As of March 31, 2015, the Company was in breach of the debt service coverage ratio which was required to be maintained at a minimum of 125%. Debt service coverage ratio is determined by dividing earnings before interest, taxes, depreciation and amortization by the annual payments of principal and interest.

As a result of the covenant breach, the long-term debt has been reclassified to current. The bank has waived the covenant requirements to April 1, 2016 and has continued to provide funding under the terms of the facility.

### 8. Obligations under capital lease

	2015	2014
	\$	\$
Capital lease payable in monthly installments of \$639, bearing interest at 2.49% per annum, maturing October 2019	33,176	-
Capital lease payable in monthly installments of \$1,205, bearing interest at 5.094% per annum, maturing January 2020	62,778	-
Capital lease payable in monthly installments of \$2,158, bearing interest at 5.094% per annum, maturing July 2018	114,750	-
	<u>210,704</u>	-
Current portion	46,620	-
	<u>164,084</u>	-

Total future minimum lease payments, of obligations under capital leases for the next five years are as follows:

	\$
2016	58,106
2017	48,018
2018	48,018
2019	48,018
2020	38,427
Net minimum lease payments	240,587
Less: imputed interest	(29,883)
	<u>210,704</u>

# Plaintree Systems Inc.

## Notes to the consolidated financial statements

March 31, 2015 and March 31, 2014

(In Canadian dollars)

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### 9. Repayable government assistance

The Company's Summit Aerospace USA Inc. division accepted a loan of \$911,952 (US\$720,000) from the Pennsylvania Industrial Development Authority (PIDA) as partial financing towards the manufacturing facility in Pocono Summit, PA purchased in May 2013. Monthly repayments are amortized over fifteen years at a fixed rate of 1.5%. The loan facility is for a term of seven years, funding 45% of the cost of the building, land and renovations.

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 deferred government assistance and is amortized into income over the period of the loan. The loan payable is accreted to the face value over the term of the loan and is recognized as accretion expense.

	Loan present value	Deferred government assistance	Repayable government assistance
	\$	\$	\$
Opening balance	732,717	179,235	911,952
Repayments	(26,638)	-	(26,638)
Accretion	20,340	(20,340)	-
March 31, 2015	726,419	158,895	885,314
Current portion	(40,498)	(19,277)	(59,775)
Long-term portion	685,921	139,618	825,539

# Plaintree Systems Inc.

## Notes to the consolidated financial statements

March 31, 2015 and March 31, 2014

(In Canadian dollars)

### 10. Intangible assets

	Customer relationship	Non-competition agreement	Computer software	Total
	\$	\$	\$	\$
Cost, balance				
March 31, 2013	1,303,270	10,000	174,081	1,487,351
Additions	-	-	9,160	9,160
March 31, 2014	1,303,270	10,000	183,241	1,496,511
Additions	-	-	4,447	4,447
<b>March 31, 2015</b>	<b>1,303,270</b>	<b>10,000</b>	<b>187,688</b>	<b>1,500,958</b>
Accumulated depreciation, balance				
March 31, 2013	(130,327)	(1,539)	(172,582)	(304,448)
Depreciation	(130,327)	(1,539)	(2,261)	(134,127)
March 31, 2014	(260,654)	(3,078)	(174,843)	(438,575)
Depreciation	(130,327)	(1,538)	(4,766)	(136,631)
<b>March 31, 2015</b>	<b>(390,981)</b>	<b>(4,616)</b>	<b>(179,609)</b>	<b>(575,206)</b>
Carrying amount, as at				
March 31, 2014	1,042,616	6,922	8,397	1,057,936
<b>March 31, 2015</b>	<b>912,289</b>	<b>5,384</b>	<b>8,079</b>	<b>925,752</b>

# Plaintree Systems Inc.

## Notes to the consolidated financial statements

March 31, 2015 and March 31, 2014

(In Canadian dollars)

### 11. Property, plant and equipment

	Factory equipment	Computer equipment	Office equipment and furniture	Vehicles	Lease improvements	Building	Land	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Cost, balance								
March 31, 2013	6,067,343	949,362	197,069	184,724	846,334	151,000	50,000	8,445,831
Additions	140,888	3,135	-	85,290	702,529	1,617,823	235,451	2,785,116
Disposals	-	-	-	(32,820)	-	-	-	(32,820)
March 31, 2014	6,208,231	952,497	197,069	237,194	1,548,863	1,768,823	285,451	11,198,127
Additions	265,150	5,262	-	46,977	340,190	-	-	657,578
Spotton	537,686	108,838	7,013	96,535	20,772	-	-	770,845
Disposals	(32,535)	-	-	-	-	-	-	(32,535)
<b>March 31, 2015</b>	<b>6,978,532</b>	<b>1,066,597</b>	<b>204,082</b>	<b>380,706</b>	<b>1,909,825</b>	<b>1,768,823</b>	<b>285,451</b>	<b>12,594,016</b>
Accumulated depreciation, balance								
March 31, 2013	(2,667,967)	(925,434)	(174,310)	(107,244)	(162,041)	(44,223)	-	(4,081,219)
Depreciation	(460,160)	(17,212)	(4,559)	(33,671)	(89,787)	(50,520)	-	(655,909)
March 31, 2014	(3,128,127)	(942,646)	(178,869)	(140,915)	(251,828)	(94,743)	-	(4,737,128)
Spotton	(495,085)	(108,472)	(7,033)	(86,896)	(10,386)	-	-	(707,872)
Depreciation	(512,376)	(6,296)	(4,559)	(49,262)	(190,073)	(105,607)	-	(868,173)
<b>March 31, 2015</b>	<b>(4,135,588)</b>	<b>(1,057,414)</b>	<b>(190,461)</b>	<b>(277,073)</b>	<b>(452,287)</b>	<b>(200,350)</b>	<b>-</b>	<b>(6,313,173)</b>
Carrying amount, as at								
March 31, 2014	3,080,104	9,851	18,200	96,279	852,249	2,229,741	174,557	6,460,981
<b>March 31, 2015</b>	<b>2,842,944</b>	<b>9,183</b>	<b>13,621</b>	<b>103,633</b>	<b>1,457,538</b>	<b>1,568,473</b>	<b>285,451</b>	<b>6,280,844</b>

Property, plant and equipment include assets under capital lease with a cost of \$213,536 (2014 - \$NIL) and accumulated depreciation of \$5,750 (2014 - \$NIL).

### 12. Due to related parties

	2015	2014
	\$	\$
Due to senior officers	4,044,280	3,665,568
Dividends payable	60,000	60,000
Due to Targa Group Inc., debenture interest	247,672	247,672
Due to Tidal Quality Management Inc.	279,094	713,284
Due to Targa Group Inc., line of credit	221,328	1,194,737
Due to Targa Group Inc., demand loan	613,546	1,563,834
Due to Targa Group Inc., demand loan interest	134,812	134,812
	<b>5,600,732</b>	<b>7,579,907</b>
Less: current portion	-	-
	<b>5,600,732</b>	<b>7,579,907</b>

As at March 31, 2015, a balance of \$4,044,280, bearing interest at a rate of prime plus 2% (\$2,955,786 principal and \$1,088,494 interest) (2014 - \$3,665,568 - \$2,715,520 principal and \$813,694 interest) remained owing to senior officers of the Company. These amounts are classified as long-term as the parties have agreed not to demand repayment before August 2016.

# Plaintree Systems Inc.

## Notes to the consolidated financial statements

March 31, 2015 and March 31, 2014

(In Canadian dollars)

### 12. Due to related parties (continued)

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 (2014 - \$60,000) of the dividend remains outstanding as of March 31, 2015. The balance is classified as long-term as the related party has agreed not to demand payment before August 2016.

As at March 31, 2015, a balance of \$247,672 (2014 - \$247,672) of the due to related parties is convertible into common shares of the Company at a rate of \$0.0115 at the option of Targa. The balance is classified as long-term as the related party has agreed not to demand payment before August 2016.

Until March 31, 2003, the Company leased facilities from a company controlled by Targa. Lease arrears owing to this related party amounted to \$174,974 (March 31, 2014 - \$174,974). The Company accepted partial financing in the form of a note payable in the amount of \$373,473 during fiscal 2014 from Tidal for a new facility in Pocono Summit. Loans totaling \$420,003 owed to Spotton by Tidal have been consolidated into the net balance as of April 1, 2014 with the acquisition of Spotton by the Company. The interest is at bank prime plus 2% and accrues on the principal balance for a balance of \$179,014 as of March 31, 2015 (March 31, 2014 - \$171,852). The party has agreed not to demand repayment of the total balance of \$279,094 (March 31, 2014 - \$713,284) before August 2016, therefore the amount is classified as long-term.

The Company has a demand loan of up to \$1,800,000 and 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 Facility is secured by a security interest granted over the assets of the Company. At March 31, 2015, \$NIL, (2014 - \$1,000,000) remained outstanding on the line of credit with accumulated interest of \$221,328 (2014 - \$194,737) for a balance of \$221,328 (2014 - \$1,194,737). At March 31, 2015, \$546,965 (2014 - \$1,491,040) remained outstanding on the demand loan with accumulated interest of \$66,581 (2014 - \$72,794) for a balance of \$613,546 (2014 - \$1,563,834). Targa has agreed that it will not demand repayment before August 2016 and, accordingly, the amounts are classified as long-term. In fiscal 2015, \$2,188,731 of the Targa and its affiliates' debt was forgiven by Targa. This resulted in a gain on forgiveness of debt of \$2,090,750 recorded in contributed surplus, which is a separate reserve account within equity, and \$97,600 recorded as a gain in the consolidated statement of comprehensive loss.

Accumulated interest in the amount of \$134,812 (2014 - \$134,812), on a loan from Targa remains outstanding as of March 31, 2015. The party has agreed not to demand repayment before August 2016 and, accordingly, the amount is classified as long-term.

### 13. Trade and other payables

Trade and other payables are comprised of the following:

	2015	2014
	\$	\$
Accounts payable	1,433,388	1,171,091
Accrued liabilities	347,808	173,107
Salaries and benefits payable	505,401	317,541
	<b>2,286,597</b>	<b>1,661,739</b>

# Plaintree Systems Inc.

## Notes to the consolidated financial statements

March 31, 2015 and March 31, 2014

(In Canadian dollars)

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### 14. Share capital

#### Authorized

Unlimited number of common shares

Unlimited number of Class A preferred shares

Class A 8% cumulative dividend, calculated on redemption amount, redeemable at the option of the Company at any time at \$1,000 per share plus accrued dividends, liquidation preference of the redemption value plus cumulative dividends (when and if declared) to common shares, non-voting.

As at March 31 2015, the accrued and unpaid dividends on the Class A preferred shares were \$9,462,000.

#### Issued

Common shares

**12,925,253**

Class A Preferred shares

**18,325**

On July 14, 2011, the Board of Directors of the Company approved a reduction to the stated capital account of \$97,844,650 (the "Stated Capital Reduction Amount"). At the Company's Annual General Meeting held on September 15, 2011, the shareholders of the Company voted in favour of the Stated Capital Reduction. The effect of the reduction was to reduce the stated capital and the accumulated deficit of the Company by the same amount. The accumulated deficit of the Company represents primarily the Company's business prior to the completion of the merger with Hypernetics and Triodetic and is not reflective of the post-merger business of the Company.

#### *Stock option plans*

The Company's Stock Option Plan allows the Company to grant options to officers and service providers to a maximum number of 1,200,000.

Options under the stock option plans are issued for a period as determined by the Board of Directors of the Company at the time of grant up to a period of ten years from the date of grant and the exercise price may not be less than the latest closing price of the common shares on the last trading day preceding the date of grant. Eligibility is determined by the Company's Board of Directors and the aggregate number available for issuance to any one person may not exceed 5% of the issued and outstanding common shares.

There are no stock options outstanding as of March 31, 2015 or March 31, 2014.

# Plaintree Systems Inc.

## Notes to the consolidated financial statements

March 31, 2015 and March 31, 2014

(In Canadian dollars)

### 15. Basic and diluted (loss) earnings per common share

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

For the years ended March 31, 2015 and 2014, diluted loss per share equals basic loss per share due to the anti-dilutive effect of options and convertible instruments.

	2015	2014
	\$	\$
Net loss	(401,351)	(1,711,371)
Cumulative dividends on preferred shares - per annum	(1,466,000)	(1,466,000)
Net loss attributable to common shares (basic and diluted)	(1,867,351)	(3,177,371)
Basic and diluted weighted average shares outstanding	12,925,253	12,925,253
Basic and diluted loss per share	(0.14)	(0.24)

### 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 products, and the specialty structural products. From time to time, the Company provides management services primarily to related companies. The revenue and cost of sales related to these services are presented in the statement of comprehensive (loss) income. No other expenses or assets are attributable to this segment. The Company determines the geographic location of revenues based on the location of its customers. Of the total balance of \$6,280,844 in property, plant and equipment \$3,070,938 is located in Canada and \$3,209,906 in the United States. All of the Company's intangible assets are located in Canada.

The write down of the related party debt (2014 - \$(568,158)) relates to the Electronics segment. The forgiveness of the debt owing to related party (2015 - \$97,600) relates to the Specialty Structures segment.

#### *Revenues by division*

	2015	2014
	\$	\$
Electronics	6,642,265	5,656,151
Specialty structures	12,676,518	15,147,451
	19,318,783	20,803,602

#### *Net loss before taxes by division*

	2015	2014
	\$	\$
Electronics	667,561	420,271
Specialty structures	(1,068,912)	(1,563,483)
	(401,351)	(1,143,212)



# Plaintree Systems Inc.

## Notes to the consolidated financial statements

March 31, 2015 and March 31, 2014

(In Canadian dollars)

### 16. Business segment information (continued)

#### *Revenues by geographical location*

	2015	2014
	\$	\$
Canada	10,664,137	15,054,547
United states	6,648,845	4,731,998
Peru	1,637,213	-
Other	368,588	1,017,057
	<b>19,318,783</b>	<b>20,803,602</b>

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

	2015	2014
	\$	\$
Number of customers	2	2
% of total revenue	11%, 13%	11%, 34%

#### *Assets by division*

	2015	2014
	\$	\$
Electronics	11,708,526	5,744,474
Specialty structures	2,884,675	8,524,333
	<b>14,593,201</b>	<b>14,268,807</b>

### 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 tax effects of 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:

	2015	2014
	\$	\$
Accounting depreciation in excess of tax	1,628,000	1,570,000
Research and development expenses not deducted for tax	5,952,000	5,952,000
Losses available to offset future income taxes	825,000	1,280,000
Valuation allowance	(8,405,000)	(8,802,000)
	-	-

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 \$20,755,000 (2014 - \$20,755,000) for Canadian federal and provincial tax purposes. These are available without expiry to reduce future years' taxable income.

# Plaintree Systems Inc.

## Notes to the consolidated financial statements

March 31, 2015 and March 31, 2014

(In Canadian dollars)

### 17. Income taxes (continued)

At March 31, 2015, the Company has approximately \$617,000 (2014 - \$617,000) of investment tax credits, relating primarily to research and development, available to reduce future year's Canadian federal income taxes. These potential benefits expire as follows:

	\$
2021	240,000
2022	344,000
2029	12,000
2030	16,000
2031	5,000
	<u>617,000</u>

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

	2015	2014
	\$	\$
Net loss before income taxes	<b>(401,351)</b>	(1,711,371)
Canadian statutory rate	<b>26.5%</b>	26.5%
Expected income tax benefit	<b>(106,358)</b>	(453,513)
Changes in unrealized deferred tax assets	<b>156,761</b>	166,556
Permanent differences	<b>3,887</b>	80,538
Benefit of current loss and assets of subsidiary not recorded	<b>33,233</b>	206,419
Other	<b>(87,523)</b>	-
Income tax expense	<u>-</u>	<u>-</u>

The Company has losses available to reduce future years' Canadian federal taxable income totaling approximately \$3,118,000. These potential benefits expire as follows:

	\$
2031	318,000
2032	783,000
2033	545,000
2034	821,000
2035	651,000
	<u>3,118,000</u>

The Company has U.S. losses of approximately \$1,900,000 which begin to expire in 2030.

# Plaintree Systems Inc.

## Notes to the consolidated financial statements

March 31, 2015 and March 31, 2014

(In Canadian dollars)

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### 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.

As at March 31, 2015, the Company has three letters of guarantee outstanding as follows: US\$133,800 due June 10, 2015, US\$353,162 due December 27, 2015 and US\$89,200 due May 31, 2016 (2014 - one letter of guarantee outstanding as follows: US\$210,926 due December 27, 2014)

#### *Commitments*

The Company leases office space under an operating lease that expires in June 2024. Future minimum payments due in each of the next five years and thereafter, under the operating lease are as follows:

	\$
2016	105,693
2017	105,693
2018	105,693
2019	105,693
2020	105,693
Thereafter	449,263
	<hr/>
	977,728

#### *Product warranties*

As part of the normal sale of product, the Company provides its customers with standard one-year product warranties and from time to time it sells separately priced extended warranties. The Company currently has parts only warranty obligations that are included with the normal sale of the product. Given the history of nominal warranty parts replacement, the Company has recognized the revenue relating to warranties upon the original product revenue recognition with no obligation included in liabilities.

# Plaintree Systems Inc.

## Notes to the consolidated financial statements

March 31, 2015 and March 31, 2014

(In Canadian dollars)

### 18. Guarantees, commitments and contingencies (continued)

#### Contractual obligations

The following table provides a summary of the Company's obligations outstanding as at March 31, 2015:

#### Payments due by period

	Total	Current	2017	2018	2019	2020	Thereafter
	\$	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	2,286,597	2,286,597					
Due to related parties- debenture interest	247,672	-	247,672	-	-	-	-
Due to related parties- other	4,383,374	-	4,383,374	-	-	-	-
Due to related parties- line of credit	221,328	-	221,328	-	-	-	-
Due to related parties- demand loan	748,358	-	748,358	-	-	-	-
Due to related parties- lease payments	871,967	105,693	105,693	105,693	105,693	105,693	343,502
Government assistance							
Long-term debt	4,455,107	1,047,148	1,047,148	257,041	257,041	234,645	1,230,695
	13,214,403	3,439,438	6,753,573	362,734	362,734	340,338	1,574,197

### 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.

# Plaintree Systems Inc.

## Notes to the consolidated financial statements

March 31, 2015 and March 31, 2014

(In Canadian dollars)

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### 19. Financial instruments (continued)

#### *Credit risk*

Credit risk arises from cash held with banks 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.

#### 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. As at March 31, 2015, the Company was in a positive cash position of \$57,757, (2014 – bank indebtedness of \$(24,776)). During the years ended March 31, 2015 and 2014, the Company did not hold any investments in asset-backed commercial paper.

#### 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 income (loss). 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 \$4,638,602 (2014 - \$3,780,418). As of March 31, 2015, trade receivables were comprised of one company totaling 24%, (2014 - 17%, 14%, 12%, 11% and 10% respectively) of trade receivables. As at March 31, 2015, the Company's ageing of accounts receivable was approximately 52% (2014 - 95%) under sixty days, 9% (2014 - 2%); over 60 - 90 days and 39% (March 31, 2014 - 3%) over 90 days and the allowance for doubtful accounts was \$NIL (2014 - \$NIL).

#### 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 bank and related party debt totaling \$7,298,343. The variable interest rates range from prime less 0.65% to prime plus 2.0%. A 1% change in the bank prime interest rate causes a \$72,983 change in annual interest expense. The Company does not use derivative instruments to reduce its exposure to interest rate fluctuations.

# Plaintree Systems Inc.

## Notes to the consolidated financial statements

March 31, 2015 and March 31, 2014

(In Canadian dollars)

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### 19. Financial instruments (continued)

#### *Credit risk (continued)*

##### 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, 2015, the Company had a foreign exchange gain of \$60,218 (2014 - loss of \$100,192). 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 \$418,035 and \$329,060 for the fiscal years ended March 31, 2015 and 2014, respectively.

Assets and liabilities denominated in U.S. dollars (expressed below in Canadian dollars) are as follows:

	<b>2015</b>	2014
	\$	\$
Cash/(Bank indebtedness)	<b>741,140</b>	(775,861)
Trade receivables	<b>982,400</b>	828,998
Unbilled revenue	<b>14,798</b>	319,582
Trade and other payables	<b>(897,353)</b>	(335,970)
Deferred revenue	<b>(139,815)</b>	(496,746)
Long-term debt	<b>(3,210,579)</b>	(2,830,609)
	<b>(2,509,409)</b>	(3,290,606)

##### 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. At March 31, 2015, most of the Company's accounts payable were current. The vast majority of accounts payable fall due for payment within forty-five days. Accrued liabilities are generally due after more than one month and in some cases it may not yet be possible to determine the contracted date for payment.

The Company is required to maintain certain financial covenants in connection with its existing banking arrangements (Note 21).

##### Fair values

The carrying amounts for cash, trade receivables, 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 approximate fair value as the interest rate is reflective of rates currently available for similar debt.

The fair values of amounts due to and due from related parties are not determinable as comparable arm's length debts are not available.

# Plaintree Systems Inc.

## Notes to the consolidated financial statements

March 31, 2015 and March 31, 2014

(In Canadian dollars)

### 20. Related parties

#### *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 are members of the Company's executive management team, which include the CEO, CFO and VP-Mergers and Acquisitions and control approximately 34.4% of the outstanding shares of the Company. Compensation provided to key management is as follows:

	2015	2014
	\$	\$
Short-term employee benefits	475,000	470,000

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

#### *Related party transactions*

During the year ended March 31, 2015, the Company incurred interest expense of \$257,890 (2014 - \$168,987) which is primarily interest on related party balances as described in Note 12.

On March 31, 2015, the Company's senior officers agreed to defer payment of consulting fees and salaries payable to August 2016. During fiscal 2015, a portion of these fees and salaries, amounting to \$102,735 (2013 - \$233,925), was paid to the senior officers. At March 31, 2015, these outstanding fees and salaries to senior officers of the Company, who are also majority shareholders of Targa, amounted to \$2,955,786 (2014 - \$2,718,521), plus interest charges of \$1,088,494 (2014 - \$947,048) for a total payable of \$4,044,280 (2014 - \$3,665,569). These amounts are included in due to related parties.

The above related party transactions are measured at their exchange amount, which is the amount agreed to by the parties.

### 21. Capital management

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, purchase and cancel shares previously issued, return capital to shareholders or sell assets to reduce debt. The Company considers the items included in equity as well as long-term debt as capital, which totals \$5,301,708 (2014 - \$4,136,318) at year-end.

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year revenue increases with positive increases in earnings before interest, tax, depreciation and amortization. These objectives are met through operational changes to enhance cash flow performance, the evaluation of acquisitions as they relate to the Company's market share and performance, and risk mitigation over exposure.

The Company is subject to various covenants on long-term debt (including debt to tangible net worth, current assets to current liabilities, capital and debt service ratios). The Company is in breach of the debt service ratio covenant to which the bank has provided forbearance and will not demand repayment before April 1, 2016. The bank expects the Company to be onside on their covenant by March 31, 2016 (Note 7).

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended March 31, 2015 compared to the year ended March 31, 2014.

# Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2015 and March 31, 2014

(In Canadian dollars)

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## **22. Subsequent events**

Subsequent to year end on July 20, 2015, the Corporation, through a wholly-owned subsidiary, acquired the assets and business of Madawaska Doors Inc., including a building located in Barry's Bay, Ontario, for a total purchase price of \$280,000. The business of Madawaska Doors Inc. involves the manufacturing and selling of high quality, 100% natural solid wood custom doors and related parts and material. The Corporation intends to carry on the business of Madawaska Doors Inc. through its wholly-owned subsidiary.