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

PLAINTREE SYSTEMS INC.

For the years ended March 31, 2016 and 2015

Date – July 29, 2016

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

The following discussion of the financial condition, changes in financial condition and results of operations of Plaintree is for the years ended March 31, 2016 and 2015. 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 27, 2016 and is current to that date, unless otherwise stated. Management is responsible for ensuring that processes are in place to provide sufficient knowledge to support the representations made in the annual filings. Our Audit Committee and Board of Directors provide an oversight role with respect to all public financial disclosures by the Company, and have reviewed this MD&A and the accompanying financial statements.

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

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

Caution Regarding Forward Looking Information

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

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Overview

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., Spotton Corp. and the Madawaska Doors business). 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, aluminum and stainless steel specialty structures such as commercial domes, free form structures, barrel vaults, space frames and industrial dome coverings. Summit, a wholly-owned subsidiary of Plaintree, specializes in the high end machining of super-alloys for the aircraft and helicopter markets. The business of Spotton, a wholly-owned subsidiary of Plaintree, involves the design and manufacture of high end custom hydraulic and pneumatic valves and cylinders for the industrial and oil and gas markets. Madawaska Doors, owned by 9366920 Canada Inc., a wholly-owned subsidiary of Plaintree, is a manufacturer of truly solid wood custom handcrafted doors made from finest woods from around the world. The address of the Company's registered office and principal place of business is 10 Didak Drive, Arnprior, Ontario.

Recent Developments

On July 20, 2015, the Corporation, through 9366920 Canada Inc., a wholly-owned subsidiary, acquired the assets and businesses 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.

On December 31, 2014 Targa forgave loans to Plaintree in the amount of $2,099,825 and accumulated interest of $88,903 for a total of $2,188,728. This was recorded during the fiscal 2015 year as other income in the amount of $97,600 and contributed surplus in the amount of $2,090,750.

The Company's common shares are quoted on the CSE under symbol "NPT" in Canada.

Control Activities

For all changes to policies and procedures that have been identified, the effectiveness of internal controls over financial reporting and disclosure controls and procedures has been assessed and any required changes have been implemented.

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Selected Annual Financial Information

The Company's consolidated financial statements are stated in Canadian dollars and are prepared in accordance with IFRS. The following table sets forth selected financial information from the Company's fiscal 2016 financial statements:

($000s, except per share amounts)

	March 31, 2016	March 31, 2015
	$	**$**
Total assets	**12,080**	**14,593**
Total liabilities	**12,555**	**12,809**
Long-term liabilities	**6,779**	**6,590**
Cash dividends declared per share	**nil**	**nil**

($000s, except per share amounts)

	March 31, 2016	March 31, 2015
	$	$
Revenue	**15,746**	**19,319**
Net (loss) income and total comprehensive (loss) income	**(2,259)**	**(401)**
Net loss attributed to common shareholders	**(3,725)**	**(1,867)**
Basic and diluted loss per share	**(0.29)**	**(0.14)**

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Results of Operations

Plaintree Systems Inc.

	($000s, except per share and % amounts) Fiscal Year		Change from
	2016	**2015**	**2015 to 2016**
	$	**$**	$
Revenue	**15,746**	**19,319**	(3,573)
Cost of sales	**13,939**	**15,817**	(1,878)
Gross margin	**1,807**	**3,502**	1,695
	11%	**18%**	
Operating expenses:			
Research and development	**1,308**	**1,451**	(143)
Finance and administration	**1,158**	**1,167**	(9)
Sales and marketing	**1,098**	**931**	167
Bad debt	**-**	**17**	(17)
Interest expense	**426**	**498**	(72)
Gain on sale of property, plant and equipment	**11**	**(3)**	14
Loss (gain) on foreign exchange	**66**	**(60)**	126
	4,067	**4,001**	66
Net (loss) income before other expenses and income taxes	**(2,259)**	**(499)**	(1,760)
Other expenses			
Forgiveness of debt owing to related party	**-**	**(98)**	98
Net (loss) income before income taxes	**(2,259)**	**(401)**	(1,858)
Net (loss) income and comprehensive (loss) income	**(2,259)**	**(401)**	(1,858)

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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 $5,888,195 in property, plant and equipment $3,054,558 is located in Canada and $2,833,637 in the United States. All of the Company's intangible assets are primarily located in Canada.
The write off of the related party debt (2015 - $381,393) relates to the Speciality Structures segment.

Revenues by division

	2016	2015
	$	$
Electronics	**6,412,295**	**6,642,265**
Specialty Structures	**9,333,880**	**12,676,518**
	15,746,175	**19,318,783**

Net (loss) before taxes by division

	2016	2015
	$	$
Electronics	**(184,044)**	**667,561**
Specialty Structures	**(2,074,540)**	**(1,068,912)**
	(2,258,584)	**(401,351)**

Revenues by geographical location

	2016	2015
	$	$
Canada	**7,742,219**	**10,664,137**
United States	**7,138,878**	**6,648,845**
Peru	**208,057**	**1,637,213**
Other	**657,021**	**368,588**
	15,746,175	**19,318,783**

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

	2016	2015
Number of customers	**1**	2
% of total revenue	**16%**	11%, 13%

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Assets by division

	2016	2015
	$	**$**
Electronics	**6,869,777**	**11,708,526**
Specialty Structures	**5,210,684**	**2,884,675**
	12,080,461	**14,593,201**

Revenues

<u>Revenue</u>

Total product revenue for fiscal 2016 was $15,746,175 compared to $19,318,783 in fiscal 2015.

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

Plaintree's Electronics Division revenues remained virtually constant at $6,412,295 in fiscal 2016 and $6,642,265 in fiscal 2015.

Plaintree's Specialty Structures Division revenue decreased to $9,333,880 in fiscal 2016 from $12,676,518 in fiscal 2015. The decrease is a direct result of three larger projects in the Triodetic business during the previous fiscal year.

Gross Margin

Total gross margin decreased in fiscal 2016 to 11% from 18% in fiscal 2015.

Inventory write-downs of $16,985 and $37,084 in fiscals 2016 and 2015 are included in the cost of sales.

Operating Expenses

Research and development expenses

Research and development expenses were $1,308,124 and $1,451,386 in fiscals 2016 and 2015 respectively. Research and development expenditures consist primarily of development engineering and personnel expenses.

Research and development expenses are expected to remain at comparable levels throughout fiscal 2017.

Finance and administration expenses

Finance and administration expenses were $1,157,672 and $1,167,432 in fiscals 2016 and 2015 respectively. Finance and administration expenses consist primarily of costs associated with managing the Company's finances, which included financial staff, legal and audit activities.

Finance and administration expenses are expected to remain at comparable levels throughout fiscal 2017.

Sales and marketing expenses

Sales and marketing expenses were $1,097,810 and $931,209 in fiscals 2016 and 2015 respectively. These expenses consisted primarily of personnel and related costs associated with the Company's sales and marketing departments, which include sales commissions, advertising, travel, trade shows and other promotional activities.

Sales and marketing expenses are expected to remain at comparable levels of to fiscal 2016 throughout fiscal 2017.

Bad debt expenses

The Company recorded bad debts of $NIL and $16,521 in fiscals 2016 and 2015 respectively.

Interest expense

Interest expense consists of interest incurred on bank and related party debt. Interest expenses were $425,535 and $497,921 for fiscals 2016 and 2015, respectively. Interest expense decreased primarily due to forgiveness of related party debt late in fiscal 2015. The majority of the Company's debt accrues interest at variable rates based on the Company's bank prime lending rate of interest.

Gain (loss) on foreign exchange

The Company reported losses (gains) on foreign exchange of $66,017 and $(60,218) in fiscals 2016 and 2015 respectively. The gain/loss on foreign exchange represents the gain/loss, realized or unrealized, of transactions and year end foreign balances that are completed in currencies other than the Company's reporting currency.

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

Net loss and comprehensive loss for fiscals 2016 and 2015 was $(2,258,584) and $(401,351) respectively. Net income attributed to common shareholders is calculated by reducing net income by the $1,466,000 cumulative yearly 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 of March 31, 2016, the accrued and unpaid dividends on the Class A preferred shares were $10,928,000.

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Quarterly Results

The following table sets out selected unaudited consolidated financial information for each quarter in fiscal 2016 and fiscal 2015:

Quarters ended

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

	Mar 31 2016	Dec 31 2015	Sept 30 2015	June 30 2015	Mar 31 2015	Dec 31 2014	Sept 30 2014	June 30 2014
	$	$	$	$	$	$	$	$
Revenue	4,716	3,648	3,622	3,760	3,910	3,970	6,770	4,669
Net profit (loss) and total comprehensive income (loss)	(201)	(536)	(1,365)	(157)	(795)	(120)	1,040	(526)
Net profit (loss) attributed to common shareholders	(589)	(903)	(1,731	(524)	(1,161)	(606)	674	(893)
Basic and diluted earnings (loss) per share	(0.05)	(0.07)	(0.13)	(0.04)	(0.09)	(0.03)	0.05	(0.07)

Liquidity and Capital Resources

($000s)

	2016	2015	**Change**
	$	$	$
Cash	**(5)**	58	(63)
Working Capital	**(376)**	1,167	(1,543)

(i) The Company is subject to various covenants on the 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 servicing ratio to which the bank has provided forbearance until April 1, 2017 with respect to this breach. IFRS requires that a financial liability be classified as current even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorized for issue. The Company's working capital without this reclassification of bank debt is $4,083,319 and $3,638,319 for fiscals 2016 and 2015 respectively.

	2016	2015	Change
Net cash (used in) provided by:			
	$	$	$
Operating activities	**955**	(397)	1,352
Investing activities	**(216)**	(464)	248
Financing activities	**(801)**	944	(1,745)

Cash

As at March 31, 2016, the Company was in a cash deficit balance of $4,576, a decrease of $62,333 from March 31, 2015.

Working Capital

Working capital represents current assets less current liabilities. As at March 31, 2016, the Company had negative working capital of $376,485 compared to working capital of $1,167,483 at March 31, 2015 after the bank debt was reclassified as a current liability due to a breach of bank covenants. The Company is subject to various covenants on the long-term debt (including debt to tangible net worth, current assets to current liabilities and debt service ratios). The Company is in breach of the debt servicing ratio to which the bank has provided forbearance until April 1, 2017. The bank expects the Company to be back in covenant by March 31, 2017. IFRS requires that a financial liability be classified as current even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorized for issue. The Company's working capital without this reclassification of current bank debt is $4,083,319 and $3,638,319 for fiscal periods 2016 and 2015, respectively.

Cash provided by (used in) Operating activities
Cash used in operating activities for fiscal 2016 was $954,990 representing an increase of $1,352,413 from cash used of $(397,423) in fiscal 2015. Cash provided by operating activities in fiscal 2016 was primarily the result of collection of trade receivables balances.

Cash (used in) Investing activities
Cash used in investing activities for fiscal 2016 was $(216,143) representing a decrease of $247,501 from cash used in investing activities of $(463,644) in fiscal 2015. The decrease in fiscal 2016 was primarily due to the collection of the note receivable (note 7).

Cash (used in) provided by financing activities
Cash used in financing activities for fiscal 2016 was $(801,180) representing a decrease of $1,744,779 from cash provided of $943,599 in fiscal 2015. Cash provided in financing activities in fiscal 2015 relates primarily to the borrowings to acquire land and building for the US operations and related party borrowings.

Outlook – Going Concern

These consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As March 31, 2016, the Company had an accumulated deficit of $2,565,612 and, for the period then ended, the Company incurred a total comprehensive loss of $2,258,584. As at March 31, 2016, the Company had negative working capital of $376,485 and no cash on hand. The Company has in place a credit facility of up to $2M through its bank based on acceptable trade receivables and inventory (amount outstanding as at March 31, 2016, $1,110,654 which includes a letter of credit in the amount of $458,651). The Company's analysis of forecasted sales and expenses indicate improvement in both sales and cash flow after July 2016 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) another unprofitable event occurs such as the installation overruns in Saskatoon contract that have negatively affected the Company for the past 18 months, 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.

Related Party Transactions

	2016	2015
	$	$
Due to senior officers	**4,456,950**	4,044,280
Dividends payable	**60,000**	60,000
Due to Targa Group Inc., convertible debentures	**247,672**	247,672
Due to Tidal Quality Management Inc.	**265,968**	279,094
Due to Targa Group Inc., demand loan	**242,598**	221,328
Due to Targa Group Inc., line of credit	**463,546**	613,546
Due to Targa Group Inc., demand loan interest	**134,812**	134,812
	5,871,546	5,600,732
Less: current portion	**-**	-
	5,871,546	5,600,732

As at March 31, 2016, a balance of $4,456,950 ($3,221,316 principal and $1,235,634 interest) (2015 - $4,044,280 - $2,955,786 principal and $1,088,494 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 2017.

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 (2015 - $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 2017.

As at March 31, 2016, a balance of $247,672 (2015 - $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 2017.

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, 2015 - $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. As at March 31, 2016 a balance of $328,109 remains outstanding. 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 Corp by the Company. The interest is at bank prime plus 2% and accrues on the principal balance for a balance of $174,974 as of March 31, 2016 (March 31, 2015 - $179,014). The party has agreed not to demand repayment of the total balance of $265,968 (March 31, 2015 - $279,094) before August 2017 and 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 Demand Loan is secured by a security interest granted over the assets of the Company. At March 31, 2016, $NIL, (2015 - $NIL) remained outstanding on the demand loan with accumulated interest of $66,581 (2015 - $66,581). At March 31, 2016, $396,965 (2015 - $546,965) remained outstanding on the line of credit with accumulated interest of $242,598 for a balance of $639,563. Targa has agreed that it will not demand repayment before August 2017 and, accordingly, the amounts are classified as long-term.

Accumulated interest in the amount of $134,812 (2015 - $134,812), on a loan from Targa remains outstanding as of March 31, 2016. The party has agreed not to demand repayment before August 2017 and, accordingly, the amount is classified as long-term.

Facilities

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

On May 23, 2013 the Company along with its wholly-owned US subsidiary completed the acquisition of a 16,300 sq. ft. manufacturing facility in Pocono Summit, PA. The relocation of Summit Aerospace USA Inc. from its leased location was completed in June 2014.

On July 20, 2015 the Company, through a wholly-owned subsidiary completed the acquisition of a 33,000 sq. ft. manufacturing facility in Barry's Bay, ON for the manufacturing of its Madawaska Door business.

Other Contracts and Commitments
The following table provides a summary of the Company's obligations outstanding as at March 31, 2016:

Payments due by period

	Total	Current	2018	2019	2020	2021	Thereafter
Accounts payable and accrued liabilities	2,339,216	2,339,216	-	-	-	-	-
Due to related parties - convertible debentures	247,672	-	247,672	-	-	-	-
Due to related parties - other	4,782,918	-	4,782,918	-	-	-	-
Due to related parties - line of credit	463,546	-	463,546	-	-	-	-
Due to related parties - demand loan	377,410	-	377,410	-	-	-	-
Due to related parties - lease payments	845,544	105,693	105,693	105,693	105,693	105,693	317,079
Long-term debt	3,714,291	1,112,884	616,838	274,199	249,157	227,123	1,234,090
	12,770,597	3,557,793	6,594,077	379,892	354,850	332,816	1,551,169

Risk Factors Affecting Future Business

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 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, 2016, the Company was in a cash deficit position with banks of $(4,576), (2015 – $57,757). During the years ended March 31, 2016 and 2015, 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 totalling $3,076,791 (2015 - $4,638,602). As of March 31, 2016, trade receivables were comprised of two companies totalling 11% and 14% (2015 – 1 company totalling 24%). As at March 31, 2016, the Company's ageing of accounts receivable was approximately 86% (2015 - 52%) under sixty days, 4% (2015 - 9%); over 60 - 90 days and 10% (March 31, 2015 - 39%) over 90 days and the allowance for doubtful accounts was $NIL (2015 - $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 totalling $8,573,211. 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 an $85,572 change in annual interest expense. The Company does not use derivative instruments to reduce its exposure to interest rate fluctuations.

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, 2016, the Company had a foreign exchange loss of $66,017 (2015 – gain of $60,218). 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 $129,297 and $86,836 for the fiscal years ended March 31, 2016 and 2015, respectively.

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

	2016	**2015**
	$	**$**
Bank indebtedness	**(331,415)**	**(741,140)**
Trade receivables	**1,267,865**	**982,340**
Unbilled revenue	**78,807**	**14,799**
Inventory	**57,277**	**82,395**
Property, plant and equipment, net	**2,894,160**	**3,182,444**
Trade and other payables	**(439,332)**	**(1,085,950)**
Deferred revenue	**(224,298)**	**(92,667)**
Long-term debt	**(2,010,093)**	**(3,210,579)**
	1,292,971	**(868,358)**

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, 2016, 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 8).

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

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 $2,226,805 (2015 - $5,301,708) 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 and debt ratio covenant to which the bank has provided forbearance and will not demand repayment before April 1, 2017. The bank expects the Company to be onside on their covenant by March 31, 2017 (Note 8).

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, 2016 compared to the year ended March 31, 2015.

New Standards effective April 2018

IFRS 9: Financial Instruments

Issued in July 2014, IFRS 9 replaces IAS 39 *Financial Instruments: recognition and measurement* ("IAS 39"). This standard simplifies the classification of a financial asset as either at amortized cost or at fair value as opposed to the multiple classifications which were permitted under IAS 39. This standard also requires the use of a single impairment method as opposed to the multiple methods 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. The standard also adds guidance on the classification and measurement of financial liabilities and introduces a new hedge accounting model. This IFRS, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is in the process of assessing the impact of this standard on its financial statements.

IFRS 15: Revenue from Contracts with Customers

Issued in May 2014, IFRS 15 establishes principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The main principle of this standard is that an entity shall recognize revenue to depict the transfer of promised services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. Adoption of this IFRS is mandatory for annual reporting periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is in the process of assessing the impact of this standard on its financial statements.

IFRS 16: Leases

Issued in January 2016, IFRS 16 Introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This IFRS, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company is in the process of assessing the impact of this standard on its financial statements.

Summary of Outstanding Share Data

As at July 29, 2016, 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, 2016, of $247,672 in accrued interest only. Interest is convertible in cash only.

Options:*** None

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