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# Independent auditor's report

To the Shareholders of
Plaintree Systems Inc.

We have audited the accompanying consolidated financial statements of Plaintree Systems Inc., which comprise the consolidated statements of financial position as at March 31, 2017 and March 31, 2016, and the consolidated statements of comprehensive loss, changes in equity and 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 Plaintree Systems Inc. as at March 31, 2017 and March 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

**Emphasis of matter**
Without qualifying our opinion, we draw attention to Note 2(d) in the consolidated financial statements which indicates that the Company incurred a net loss of $2,639,634 during the year ended March 31, 2017, and, as of that date, the Company's current liabilities exceeded its total assets by $1,871,810. These conditions, along with other matters as set forth in Note 2(d), indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants

August 28, 2017

# Plaintree Systems Inc.

## Consolidated statements of financial position
## as at March 31, 2017 and March 31, 2016

(In Canadian dollars)

| | 2017 | 2016 |
|---|---|---|
| | **$** | $ |
| **Assets** | | |
| Current assets | | |
| Cash | **-** | - |
| Trade receivables and other receivables | **2,460,517** | 2,711,810 |
| Unbilled revenue | **244,299** | 364,981 |
| Inventories (Note 6) | **1,766,655** | 2,232,395 |
| Prepaid expenses and other receivables | **77,785** | 91,103 |
| Assets classified as held for sale (Note 4) | **10,686** | - |
| | **4,559,942** | 5,400,289 |
| Property, plant and equipment (Note 10) | **5,126,448** | 5,888,195 |
| Intangible assets (Note 11) | **655,713** | 791,978 |
| | **10,342,103** | 12,080,462 |
| **Liabilities** | | |
| Current liabilities | | |
| Bank indebtedness | **324,566** | 4,576 |
| Trade and other payables (Note 13) | **3,769,957** | 2,339,216 |
| Deferred revenue | **479,572** | 625,693 |
| Current portion of long-term debt - bank (Note 7) | **1,660,149** | 2,701,665 |
| Current portion of deferred government assistance (Note 9) | **19,000** | 19,500 |
| Current portion of obligations under lease capital (Note 8) | **139,508** | 48,024 |
| Current portion of government assistance (Note 9) | **39,000** | 38,100 |
| | **6,431,752** | 5,776,774 |
| Deferred government assistance (Note 9) | **108,058** | 123,140 |
| Obligations under lease capital (Note 8) | **438,169** | 115,237 |
| Repayable government assistance - other (Note 9) | **643,509** | 668,625 |
| Due to related parties (Note 12) | **5,835,109** | 5,871,546 |
| | **13,456,597** | 12,555,322 |
| **Shareholders' equity** | | |
| Issued capital | **2** | 2 |
| Contributed surplus | **2,090,750** | 2,090,750 |
| Deficit | **(5,205,246)** | (2,565,612) |
| | **(3,114,494)** | (474,860) |
| | **10,342,103** | 12,080,462 |

Approved by the Board

"David Watson"

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"Girvan Patterson"

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

# Plaintree Systems Inc.

Consolidated statements of comprehensive loss
years ended March 31, 2017 and March 31, 2016
(In Canadian dollars)

| | **2017** | 2016 |
|---|---|---|
| | **$** | $ |
| | | (Note 4) |
| **Revenue** | **12,844,110** | 13,403,915 |
| Cost of sales | **11,354,643** | 11,137,992 |
| Gross margin | **1,489,467** | 2,265,923 |
| Operating expenses | | |
| Research and development | **1,173,394** | 1,206,895 |
| Finance and administration | **971,194** | 1,156,410 |
| Sales and marketing | **693,703** | 872,241 |
| Impairment loss | **311,427** | - |
| (Gain) loss on disposal of assets | **(56,178)** | 10,645 |
| Interest expense | **255,134** | 424,530 |
| Loss on foreign exchange | **82,069** | 69,040 |
| | **3,430,743** | 3,739,761 |
| Net loss before other loss | **(1,941,276)** | (1,473,838) |
| Other | | |
| Loss from discontinued operation (Note 4) | **(698,358)** | (784,746) |
| **Net loss and comprehensive loss** | **(2,639,634)** | (2,258,584) |
| **Basic and diluted loss per common share (Note 15)** | | |
| From continuing and discontinued operations | **(0.32)** | (0.29) |
| From continuing operations | **(0.26)** | (0.23) |
| **Weighted average common shares outstanding** | **12,925,253** | 12,925,253 |

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

# Plaintree Systems Inc.

Consolidated statements of cash flows
years ended March 31, 2017 and March 31, 2016
(In Canadian dollars)

| | **2017** | 2016 |
|---|---|---|
| | **$** | $ |
| **Operating activities** | | |
| Net loss | **(2,639,634)** | (2,258,584) |
| Add (deduct) items not affecting cash | | |
| Write-down of inventories | **525,216** | 16,985 |
| Impairment loss | **311,427** | - |
| Depreciation of intangible assets | **136,265** | 138,496 |
| Depreciation of property, plant and equipment | **977,539** | 934,262 |
| Loss (gain) on the sale of property, plant and equipment | **(65,178)** | 10,645 |
| Changes in non-cash operating working capital items | | |
| Trade and other receivables | **251,293** | 1,288,661 |
| Unbilled revenue | **120,682** | 215,393 |
| Inventories | **(59,476)** | (41,593) |
| Prepaid expenses and other receivables | **13,319** | 108,276 |
| Trade and other payables | **1,430,740** | 52,619 |
| Deferred revenue | **(146,121)** | 317,547 |
| Interest paid on related party debt | **-** | 172,283 |
| Cash provided by operations | **856,072** | 954,990 |
| **Investing activities** | | |
| Acquisition of Madawaska Doors Inc. | **-** | (280,000) |
| Repayment of notes receivable | **-** | 357,207 |
| Payments to acquire intangible assets | **-** | (4,722) |
| Payments to acquire property, plant and equipment | **(245,803)** | (348,291) |
| Proceeds from disposal of property, plant and equipment | **228,353** | 59,663 |
| Cash used in investing activities | **(17,450)** | (216,143) |
| **Financing activities** | | |
| Proceeds from long-term debt | **-** | 100,000 |
| Repayment of government assistance | **(39,798)** | (35,948) |
| Repayment of long-term debt | **(1,041,516)** | (916,319) |
| Repayment of capital lease obligations | **(40,861)** | (47,443) |
| (Decrease) increase in related party borrowings | **(36,437)** | 98,530 |
| Cash used in financing activities | **(1,158,612)** | (801,180) |
| Net cash outflow | **(319,990)** | (62,333) |
| Cash (bank indebtedness), beginning of year | **(4,576)** | 57,757 |
| **Bank indebtedness, end of year** | **(324,566)** | (4,576) |

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

# Plaintree Systems Inc.

## Consolidated statements of changes in equity
## years ended March 31, 2017 and March 31, 2016

(In Canadian dollars)

| | Number of common shares | Issued capital | Numer of Class A preferred shares [1] | Issued capital | Contributed surplus | Equity (deficit) | Shareholders' equity (deficiency) |
|---|---|---|---|---|---|---|---|
| | | $ | | $ | $ | $ | $ |
| Balances, March 31, 2015 | 12,925,253 | 1 | 18,325 | 1 | 2,090,750 | (307,028) | 1,783,724 |
| Net loss and comprehensive loss | - | - | - | - | - | (2,258,584) | (2,258,584) |
| Balances, March 31, 2016 | 12,925,253 | 1 | 18,325 | 1 | 2,090,750 | (2,565,612) | (474,860) |
| Net loss and comprehensive loss | - | - | - | - | - | (2,639,634) | (2,639,634) |
| **Balances, March 31, 2017** | **12,925,253** | **1** | **18,325** | **1** | **2,090,750** | **(5,205,246)** | **(3,114,494)** |

[1] Class A 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

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

## 1. Description of the business

Plaintree Systems Inc. (“Plaintree” or the “Company”) was incorporated in Canada under the *Canada Business Corporation Act* and is publicly traded on the Canadian Securities Exchange (“CSE”) under “NPT”. The Company operates an Electronics division (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. (“AFTC”), Spotton Corp. and 9366920 Canada Inc. (operating as Madawaska Doors). Plaintree is an exceptionally diversified company with proprietary technologies and manufacturing capabilities in structural design, aerospace and telecommunications. 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. On June 6, 2017, the Company announced that it had completed the sale of the assets and business of AFTC. 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 all the share capital of Spotton Corporation (“Spotton”). 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. On July 20, 2015, the Company acquired the assets and activities of Madawaska Doors Inc., through its wholly-owned subsidiary, 9366920 Canada Inc. The business of Madawaska Doors involves the manufacturing and selling of high quality 100% natural solid wood custom doors and related parts and materials. The address of the Company’s registered office and principal place of business is 10 Didak Drive, Arnprior, Ontario.

## 2. Basis of presentation

*(a) Statement of compliance*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and were approved for issue by the Board of Directors on August 25, 2017.

*(b) Basis of measurement*

These consolidated financial statements have been prepared on a historical cost basis except for share-based compensation and for purchase price allocation for business combination, which are measured at fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets.

*(c) Basis of consolidation*

The consolidated financial statements include the accounts of Plaintree Systems Inc. and its wholly-owned subsidiaries: Summit Aerospace USA Inc. and Triodetic Inc. (American companies) and Arnprior Fire Trucks Inc. (Canadian company) which was discontinued during the year (Note 4), Spotton Corp. (Canadian company) and Madawaska Doors Inc., through its wholly-owned subsidiary, 9366920 Canada Inc. Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries align with the policies adopted by the Company. All intercompany transactions have been eliminated.

(In Canadian dollars)

## 2. Basis of presentation (continued)

*(d) Going concern*

These consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As at March 31, 2017, the Company had an accumulated deficit of $5,205,246 and, for the period then ended, the Company incurred a total comprehensive loss of $2,639,634. As at March 31, 2017, the Company had negative working capital of $1,871,810 and no cash on hand. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

In assessing whether the going concern assumption was appropriate, management took into account all relevant information available about the future, which was at least, but not limited to, the next twelve month period following March 31, 2017. The Company has in place a credit facility of up to $2,100,000 through its bank based on acceptable trade receivables and inventory. The availability of the credit facility to the Company as at March 31, 2017 was $1,698,218 of which $792,107 was in use and a letter of credit in the amount of US$353,162 (CAD $469,670), leaving $434,441 available. The Company's analysis of forecasted sales and expenses indicate improvement in both sales and cash flow as a result of contracts bid and/or signed, and their expected margins on these projects. As a result, the Company believes that it has sufficient cash resources to meet its obligations, beyond the next 12 months. 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) any unanticipated unprofitable event occurs, 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. The Company would then implement a strategic review of its portfolio of companies to maximize shareholders value.

These consolidated financial statements do not reflect any adjustments that would be necessary if the going concern basis was not appropriate. Such adjustments, if required, may be material.

## 3. Significant accounting policies

The significant accounting policies include the following:

*Inventories*

Inventories are valued using a 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.

*Property, plant and equipment*

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

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

## 3. Significant accounting policies (continued)

*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 |

The Company's policy is to review all long-lived assets for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company will record an impairment of the asset if the recoverable amount, determined as the higher of an asset's fair value less costs to sell or the discounted future cash flows generated from use and eventual disposal of an asset, is less than its carrying value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, 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 consolidated statement of income (loss) in the period in which the facts that give rise to the revision become known. Provisions for estimated losses, if any, are recognized in the period in which the loss is determined. Contract losses are measured as the amount by which the estimated costs of the contract exceed the estimated total revenue from the contract.

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

## 3. Significant accounting policies (continued)

*Business combination*

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

*Functional currency*

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

Monetary assets and liabilities, which are denominated in foreign currencies, are translated to the entity's functional currency at period end exchange rates, and transactions included in the consolidated 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 American subsidiaries, which have Canadian dollar functional currencies, have been translated into Canadian dollars using the exchange rates at period end for monetary items and at exchange rates at the transaction date for non-monetary items measured at historical costs.

*Stock option plans*

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

*Investment tax credits*

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

*Research and development expenditures*

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

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

*Critical accounting estimates and judgements*

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

## 3. Significant accounting policies (continued)

*Critical accounting estimates and judgements (continued)*

*Revenue recognition*

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

Revenue on 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.

*Purchase price allocation*

During fiscal year 2016, the Company acquired various assets from Madawaska Doors Inc. As a result of this acquisition, management was required to estimate the fair values of each identifiable asset and liability acquired through the acquisition. The fair value of the inventories and equipment was estimated based on appraisal and valuation information.

*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 as the functional currency of the parent company and its subsidiaries.

*Estimation uncertainty*

Critical accounting policies and estimates utilized in the normal course of preparing the Company's consolidated financial statements require the determination of future cash flows utilized in assessing net recoverable amounts and net realizable values; useful lives; allowance for bad debt; useful lives of property, equipment and intangible assets; percentage-of-completion for revenue recognition; unbilled revenue; deferred revenue; inventory obsolescence; ability to utilize tax losses and 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.

## 3. Significant accounting policies (continued)

*Critical accounting estimates and judgements (continued)*

*Estimation uncertainty (continued)*

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

*Income taxes*

The Company's deferred income tax assets and liabilities are recognized for the future tax consequences attributable to tax loss carry-forwards and to differences between the consolidated 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. Income (loss) attributable to common shareholders is equal to net income (loss) less the dividends accumulated on the preferred shares. Diluted earnings (loss) per common share is calculated by dividing the applicable net income attributable to common shareholders by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the period. The Company uses the treasury stock method in determining the denominator for earnings (loss) per share. Under this method, it is assumed that the proceeds from the exercise of options are used to repurchase common shares at the weighted average market price of the shares for the period.

*Financial instruments*

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.

*Available-for-sale*

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held to maturity or held for trading. Except as mentioned below, available-for-sale financial assets are carried at fair value with unrealized gains and losses included in other comprehensive income until realized when the cumulative gain or loss is transferred to other income.

## 3. Significant accounting policies (continued)

*Financial instruments (continued)*

*Available-for-sale (continued)*

Available-for-sale financial assets that do not have quoted market prices in an active market are recorded at cost.

Interest on interest-bearing available-for-sale financial assets is calculated using the effective interest rate method.

*Loans and receivables*

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

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.

## 3. Significant accounting policies (continued)

*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 consolidated 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 consolidated 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 consolidated financial statements.

## 4. Assets classified as held for sale and discontinued operations of Arnprior Fire Trucks Corp.

During the year, the Company was in negotiation with a potential buyer to dispose of Arnprior Fire Trucks Corp ("AFTC"), which constituted the Company's business of the manufacturing of high-end fire and emergency vehicles (the "Fire Truck Business"). Subsequent to March 31, 2017, the Company completed the sale of AFTC to 9584358 Canada Ltd. o/a Eastway Fire and Rescue Vehicles ("Eastway"). The Company and Eastway entered into an asset purchase agreement, dated May 25, 2017 pursuant to which Eastway agreed to acquire the Fire Truck Business from the Company as a going concern. The purchase price paid by Eastway consisted of nominal cash consideration and the obligation for Eastway to complete the outstanding existing fire truck contracts. Eastway has also agreed to a lease to use the Company's premises to carry on the business for a one-year period. Following the transaction, the Company ceased the operations of the Fire Trucks Business.

(In Canadian dollars)

## 4 Assets classified as held for sale and discontinued operations of Arnprior Fire Trucks Corp. (continued)

The major classes of assets and liabilities of the Fire Truck Business at the end of the current reporting period are as follows:

| | $ |
|---|---|
| Cash | 8,365 |
| Trade receivables and other receivables | 693,214 |
| Unbilled receivables | 106,265 |
| Inventories | 18,217 |
| Property, plant and equipment | 10,686 |
| | |
| Trade payables and other payables | 1,281,135 |
| Due to Plaintree | 3,806,668 |

The results of the discontinued operation included in the net loss and the cash flows for the year are set out below. The comparative balances have been updated to conform to the current year classification.

*Loss for the year from discontinued operation*

| | $ |
|---|---|
| Revenue | 2,723,253 |
| Expenses | 3,421,611 |
| Loss from discontinued operation | (698,358) |

*Cash flows from discontinued operation*

| | $ |
|---|---|
| Net cash outflows from operating activities | (282,000) |
| Net cash inflows from investing activities | 14,000 |
| Net cash inflows from financing activities | 312,640 |
| Net cash inflows | 44,640 |

(In Canadian dollars)

## 5. Acquisition of Madawaska Doors

On July 20, 2015, the Company, through 9366920 Canada Inc., a wholly-owned subsidiary, acquired the assets 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 Company intends to carry on the business of Madawaska Doors Inc. through its wholly-owned subsidiary, 9366920 Canada Inc.

| | $ |
|---|---|
| Inventory | 16,370 |
| Property, plant and equipment | 263,630 |
| | 280,000 |
| Less: purchase price | (280,000) |
| Excess of net assets over purchase price | - |

During the year, as the result of the poor performance of the business of Madawaska Doors Inc., the Company carried out a review of the recoverable amount of the property, plant and equipment of 9366920 Canada Inc. (Madawaska Doors). The review led to the recognition of an impairment loss of $311,427, which has been recognized in profit or loss. The Company also estimated the fair value less costs of disposal of the property, plant and equipment, which is based on the recent market prices of assets with similar age and conditions. The fair value less costs of disposal is higher than the value in use and as such, the recoverable amount of the relevant assets has been determined on the basis of the fair value less costs of disposals.

## 6. Inventories

| | **2017** | 2016 |
|---|---|---|
| | **$** | $ |
| Raw materials | **984,341** | 1,182,239 |
| Work in process | **595,782** | 781,593 |
| Finished goods | **186,532** | 268,563 |
| | **1,766,655** | 2,232,395 |

The cost of inventories recognized as an expense during the year was $14,400,157 (2016 - $13,869,887). The total carrying value of inventory as at March 31, 2017, was pledged as security through general security agreements under bank lines of credit and related party liabilities.

The Company wrote down its inventories by $525,216 in fiscal year 2017 (2016 - $16,985) to reflect where the carrying amount exceeded net realizable value. The Company had inventory recoveries in the year totalling $78,933 (2016 - $65,113).

(In Canadian dollars)

## 7. Long-term debt

| | **2017** | 2016 |
|---|---|---|
| | **$** | $ |
| Bank loan bearing interest at a rate including the bank's LIBOR Rate of 4.47%, due in monthly principal installments of $4,028 secured by a general security agreement, matures May 2020 | **717,776** | 763,708 |
| Bank loan bearing interest at a rate of prime plus 1.25% per annum, payable in monthly principal plus interest installments of $4,221, secured by a general security agreement, maturing March 2035 | **225,558** | 266,360 |
| Term loan payable in monthly 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 | **-** | 84,361 |
| Demand non-revolving loan payable in monthly blended installments of principal and interest, at a rate of prime plus 1.50%, secured by general security agreement, maturing five years from the date of each draw-down or February 2022 | **53,013** | 62,696 |
| Demand non-revolving loan payable in monthly blended installments of principal and interest, at a rate of prime plus 1.50%, secured by general security agreement, maturing five years from the date of each draw-down or October 2021 | **203,177** | 243,215 |
| Demand non-revolving loan, interest only monthly payments at a rate of prime plus 2.00%, secured by general security agreement, payable on demand maturing five years from date of advance | **100,000** | 100,000 |
| Demand non-revolving loan payable in monthly blended installments of principal and interest, at a rate of prime plus 1.50%, secured by a general security agreement, maturing ten years following full draw-down of the loan or December 2017 | **57,633** | 125,213 |
| Demand non-revolving loan payable in monthly installments of US$36,957, interest at LIBOR plus 3.00% per annum, maturing September 2017 | **245,742** | 813,325 |
| 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 | **34,830** | 184,109 |
| Term non-revolving loan payable in monthly installments of $3,161, bearing interest at the rate of prime plus 1.25% per annum, maturing September 2017 | **22,420** | 58,678 |
| | **1,660,149** | 2,701,665 |
| Current portion | **(1,660,149)** | (2,701,665) |
| | **-** | - |

(In Canadian dollars)

## 7. Long-term debt (continued)

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

| | $ |
|---|---|
| 2018 | 597,080 |
| 2019 | 136,455 |
| 2020 | 136,455 |
| 2021 | 136,455 |
| 2022 | 136,455 |
| Thereafter | 517,249 |
| | 1,660,149 |

As of March 31, 2017, the Company was in breach of the debt service coverage ratio and the debt ratio, which was required to be maintained at a minimum of 125% and 250% respectively (2016 - 125% and 250% respectively). Debt service coverage ratio is determined by dividing earnings before interest, taxes, depreciation and amortization by the annual payments of principal and interest. Debt ratio is determined by dividing total debt over tangible net worth.

As a result of the covenant breach, the long-term debt has been reclassified to current. The bank has waived the covenant requirements December 31, 2017, and has continued to provide funding under the terms of the facility.

As at March 31, 2017, the Company had a secured credit facility (“the Facility”) under which the company could borrow up to a maximum of $2,100,000 at any one time. The amount available on the Facility to the Company is based on acceptable trade receivables and inventory. As at March 31, 2017, the maximum borrowing available to the Company was $1,696,218 (2016 - $2,069,629).

Outstanding amounts are due and payable upon demand by the creditor. Interest is variable based on Prime Rates. The Company must also pay facility fees that are tied to outstanding balances. Loans are to be used to assist in financing the day-to-day operating requirements of the Company.

As at March 31, 2017 and March 31, 2016, total outstanding borrowings from the Facility were $1,261,777 and $1,135,572, respectively.

## 8. Obligation under capital lease

| | **2017** | 2016 |
|---|---|---|
| | **$** | $ |
| Capital lease payable in monthly installments of $639, bearing interest at 2.490% per annum, maturing October 2019 | **19,163** | 26,256 |
| Capital lease payable in monthly installments of $1,205, bearing interest at 5.094% per annum, maturing January 2020 | **36,734** | 48,599 |
| Capital lease payable in monthly installments of US$6,899, bearing interest at 4.500% per annum, maturing October 2021 | **455,277** | - |
| Capital lease payable in monthly installments of $2,158, bearing interest at 5.094% per annum, maturing July 2020 | **66,503** | 88,406 |
| | **577,677** | 163,261 |
| Current portion | **139,508** | 48,024 |
| | **438,169** | 115,237 |

(In Canadian dollars)

## 8. Obligation under capital lease (continued)

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

| | $ |
|---|---|
| 2018 | 158,118 |
| 2019 | 158,118 |
| 2020 | 151,802 |
| 2021 | 110,100 |
| Thereafter | 62,812 |
| Net minimum lease payments | 640,950 |
| Less: imputed interest | 63,273 |
| | 577,677 |

## 9. Government assistance

The Company's Summit Aerospace USA Inc. division accepted a loan of US$720,000 (CAN$943,992) 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 45.0% 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 government assistance. The loan payable is accreted to the face value over the term of the loan and is recognized as accretion expense.

| | Loan present value | Deferred government assistance | Repayable government assistance |
|---|---|---|---|
| | $ | $ | $ |
| Opening balance | 706,725 | 142,640 | 849,365 |
| Loan adjustment for exchange | 16,979 | 2,065 | 19,044 |
| Repayments | (60,204) | 1,362 | (58,842) |
| Accretion | 19,009 | (19,009) | - |
| March 31, 2017 | 682,509 | 127,058 | 809,567 |
| Current portion | (39,000) | (19,000) | (58,000) |
| Balance | 643,509 | 108,058 | 751,567 |

(In Canadian dollars)

## 10. Property, plant and equipment

| | Factory equipment | Computer equipment | Furniture | Vehicles | Lease improvements | Building | Land | Total |
|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ |
| Cost, balance | | | | | | | | |
| March 31, 2015 | 6,936,856 | 1,066,597 | 204,082 | 380,706 | 2,164,079 | 1,879,928 | 285,431 | 12,917,679 |
| Additions | 299,272 | 5,760 | - | 107,611 | 84,278 | 75,000 | 40,000 | 611,921 |
| Disposals | (70,308) | - | - | - | - | - | - | (70,308) |
| March 31, 2016 | 7,165,820 | 1,072,357 | 204,082 | 488,317 | 2,248,357 | 1,954,928 | 325,431 | 13,459,292 |
| Additions | 528,652 | 25,590 | - | 3,010 | 143,829 | - | - | 701,081 |
| Disposals | (89,114) | (848) | - | (35,975) | (200,825) | (97,840) | (50,000) | (474,603) |
| Asset classified as held for sale | - | - | - | (10,686) | - | - | - | (10,686) |
| March 31, 2017 | **7,605,358** | **1,097,099** | **204,082** | **444,666** | **2,191,360** | **1,857,088** | **275,431** | **13,675,084** |
| Accumulated depreciation, balance | | | | | | | | |
| March 31, 2015 | (4,093,914) | (1,057,414) | (190,441) | (277,073) | (706,539) | (311,454) | - | (6,636,835) |
| Depreciation | (562,309) | (6,660) | (4,559) | (45,601) | (206,079) | (109,054) | - | (934,262) |
| March 31, 2016 | (4,656,223) | (1,064,074) | (195,000) | (322,674) | (912,618) | (420,508) | - | (7,571,097) |
| Depreciation | (581,264) | (7,820) | (4,559) | (49,741) | (223,586) | (110,568) | - | (977,539) |
| March 31, 2017 | **(5,237,487)** | **(1,071,894)** | **(199,559)** | **(372,415)** | **(1,136,204)** | **(531,076)** | **-** | **(8,548,636)** |
| Carrying amount, | | | | | | | | |
| March 31, 2016 | 2,509,597 | 8,283 | 9,082 | 165,643 | 1,335,738 | 1,534,419 | 325,431 | 5,888,195 |
| **March 31, 2017** | **2,367,871** | **25,204** | **4,523** | **72,251** | **1,055,157** | **1,326,012** | **275,431** | **5,126,448** |

## 11. Intangibles

| | Customer relationship | Non-competition agreement | Computer software | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Cost, balance | | | | |
| March 31, 2015 | 1,303,270 | 10,000 | 187,688 | 1,500,958 |
| Additions | - | - | 4,722 | 4,722 |
| March 31, 2016 | 1,303,270 | 10,000 | 192,410 | 1,505,680 |
| Additions | - | - | - | - |
| March 31, 2017 | **1,303,270** | **10,000** | **192,410** | **1,505,680** |
| Accumulated depreciation, balance | | | | |
| March 31, 2015 | (390,981) | (4,616) | (179,609) | (575,206) |
| Depreciation | (130,327) | (1,539) | (6,630) | (138,496) |
| March 31, 2016 | (521,308) | (6,155) | (186,239) | (713,702) |
| Depreciation | (130,327) | (1,539) | (4,399) | (136,265) |
| March 31, 2017 | **(651,635)** | **(7,694)** | **(190,638)** | **(849,967)** |
| Carrying amount | | | | |
| March 31, 2016 | 781,962 | 3,845 | 6,171 | 791,978 |
| March 31, 2017 | **651,635** | **2,306** | **1,772** | **655,713** |

(In Canadian dollars)

## 12. Due to related parties

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Due to senior officers | **4,450,665** | 4,456,950 |
| Dividends payable | **60,000** | 60,000 |
| Due to Targa Group Inc., convertible debentures | **247,672** | 247,672 |
| Due to Tidal Quality Management Inc. | **228,616** | 265,968 |
| Due to Targa Group Inc., demand loan | **242,598** | 242,598 |
| Due to Targa Group Inc., line of credit | **470,746** | 463,546 |
| Due to Targa Group Inc., demand loan interest | **134,812** | 134,812 |
| | **5,835,109** | 5,871,546 |
| Less: current portion | **-** | - |
| | **5,835,109** | 5,871,546 |

As at March 31, 2017, a balance of $4,450,665; $3,215,031 principal and $1,235,634 interest (2016 - $4,456,950; $3,221,316 principal and $1,235,634 interest) remained owing to senior officers of the Company. The senior officers have agreed to cancel their current consulting agreements and discontinue interest payments accruing on balances as of April 1, 2016. These amounts are classified as long-term as the parties have agreed not to demand repayment before August 2018.

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 (2016 - $60,000) of the dividend remains outstanding as at March 31, 2017. The balance is classified as long-term as the related party has agreed not to demand payment before August 2018.

As at March 31, 2017, a balance of $247,672 (2016 - $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 2018.

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 (2016 - $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, 2017, a balance of $290,757 (2016 - $373,473) remains outstanding. Loans totalling $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 party agreed to discontinue interest accruing on unpaid balances as at April 1, 2016. Until then the interest was at bank prime plus 2% and accrues on the principal balance for a balance of $182,889 as of March 31, 2017 (2016 - $182,889). The party has agreed not to demand repayment of the total balance of $228,616 (2016 - $265,968) before August 2018 and the amount is classified as long-term.

(In Canadian dollars)

## 12. Due to related parties (continued)

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. The party has agreed to discontinue interest payments accruing on balances as of April 1, 2016. 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. As at March 31, 2017, nil (2016 – nil) remained outstanding on the demand loan with accumulated interest of $66,581 (2016 - $66,581). As at March 31, 2017, $404,165 (2016 - $396,965) remained outstanding on the line of credit with accumulated interest of $242,598 (2016 - $242,598) for a balance of $646,763 (2016 - $639,563). Targa has agreed that it will not demand repayment before August 2018 and, accordingly, the amounts are classified as long-term.

Accumulated interest in the amount of $134,812 (2016 - $134,812), on a loan from Targa remains outstanding as of March 31, 2017. The party has agreed not to demand repayment before August 2018 and, accordingly, the amount is classified as long-term.

## 13. Trade and other payables

Trade and other payables are comprised of the following:

| | **2017** | 2016 |
|---|---|---|
| | **$** | $ |
| Accounts payable | **2,568,911** | 1,571,212 |
| Accrued liabilities | **683,309** | 308,986 |
| Salaries and benefits payable | **517,737** | 459,018 |
| | **3,769,957** | 2,339,216 |

## 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, 2017, the accrued and unpaid dividends on the Class A preferred shares were $12,394,000 (2016 - $10,928,000)

*Issued*

| | |
|---|---|
| Common shares | 12,925,253 |
| Class A preferred shares | 18,325 |

(In Canadian dollars)

## 14. Share capital (continued)

*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 at March 31, 2017 or March 31, 2016.

## 15. Basic and diluted loss per common share

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

For the years ended March 31, 2017 and 2016, diluted earnings per share equals basic earnings per share due to the anti-dilutive effect of options and convertible instruments.

| | **2017** | 2016 |
|---|---|---|
| | **$** | $ |
| Net loss | **(2,639,634)** | (2,258,584) |
| Cumulative dividends on preferred shares - per annum | **(1,466,000)** | (1,466,000) |
| Net loss attributable to common shares (basic and diluted) | **(4,105,634)** | (3,724,584) |
| Basic and diluted weighted average shares outstanding | **12,925,253** | 12,925,253 |
| Basic and diluted loss per share from continuing and discontinued operations | **(0.32)** | (0.29) |
| Basic and diluted loss per share from continuing operations | **(0.26)** | (0.23) |

## 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. No other expenses or assets are attributable to this segment. The Company determines the geographic location of revenue based on the location of its customers. Of the total balance of $5,126,448 in property, plant and equipment $2,286,757 is located in Canada and $2,839,691 in the United States. All of the Company's intangible assets are primarily located in Canada.

(In Canadian dollars)

## 16. Business segment information (continued)

*Revenue by division*

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Electronics | 6,200,658 | 6,412,295 |
| Specialty Structures | 6,643,452 | 6,991,620 |
| | 12,844,110 | 13,403,915 |

*Net (loss) income before taxes by division*

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Electronics | 656,816 | (184,044) |
| Specialty Structures | (2,598,092) | (2,074,540) |
| | (1,941,276) | (2,258,584) |

*Revenue by geographical location*

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Canada | 5,141,769 | 5,399,959 |
| United States | 7,516,686 | 7,138,878 |
| Peru | - | 208,057 |
| Other | 185,655 | 657,021 |
| | 12,844,110 | 13,403,915 |

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

| | 2017 | 2016 |
|---|---|---|
| Number of customers | 2 | 2 |
| % of total revenue | 10%, 12% | 11%, 19% |

*Assets by division*

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Electronics | 6,611,843 | 6,869,777 |
| Specialty Structures | 3,730,260 | 5,210,684 |
| | 10,342,103 | 12,080,461 |

(In Canadian dollars)

## 17. Income taxes

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 (2016 - $20,755,000) for Canadian federal and provincial tax purposes. These are available without expiry to reduce future years' taxable income.

As at March 31, 2017, the Company has approximately $617,000 (2016 - $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 |
| | 617,000 |

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:

| | **2017** | 2016 |
|---|---|---|
| | **$** | $ |
| Net loss before income taxes | **(2,639,634)** | (2,258,584) |
| Canadian statutory rate | **26.5%** | 26.5% |
| Expected income tax benefit | **(699,503)** | (598,525) |
| Changes in unrealized deferred tax assets | **412,000** | (941,500) |
| True Up on Future Taxes | **-** | 1,590,000 |
| Permanent differences | **88,333** | 6,262 |
| Benefit of current loss and assets of subsidiary not recorded | **140,694** | 55,987 |
| Other | **58,476** | (112,224) |
| Income tax expense | **-** | - |

The Company has losses available to reduce future years' Canadian federal taxable income totalling approximately $7,337,000. These potential benefits expire as follows:

| | $ |
|---|---|
| 2031 | 318,000 |
| 2032 | 783,000 |
| 2033 | 545,000 |
| 2034 | 523,000 |
| 2035 | 1,083,000 |
| 2036 | 1,467,000 |
| 2037 | 2,618,000 |
| | 7,337,000 |

The Company has U.S. losses of approximately $1,350,000, which begin to expire in 2033.

(In Canadian dollars)

## 18. Guarantees, commitments and contingencies

*Guarantees*

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

*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 in aggregate, under the operating leases are as follows:

| | $ |
|---|---|
| 2018 | 105,693 |
| 2019 | 105,693 |
| 2020 | 105,693 |
| 2021 | 105,693 |
| 2022 | 105,693 |
| Thereafter | 238,099 |
| | 766,564 |

*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.

(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, 2017:

<u>*Payments due by period*</u>

| | Total | Current | 2018 | 2019 | 2020 | 2021 | Thereafter |
|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ |
| Accounts payable and accrued | | | | | | | |
| liabilities | 3,769,957 | 3,769,957 | - | - | - | - | - |
| Due to related parties - | | | | | | | - |
| convertible debentures | 247,672 | - | 247,672 | - | - | - | - |
| Due to related parties - | | | | | | | - |
| other | 4,450,665 | - | 4,450,665 | - | - | - | - |
| Due to related parties - | | | | | | | - |
| line of credit | 646,763 | - | 646,763 | - | - | - | - |
| Due to related parties - | | | | | | | - |
| demand loan | 201,393 | - | 201,393 | - | - | - | - |
| Due to related parties - | | | | | | | |
| lease payments | 766,564 | 105,693 | 105,693 | 105,693 | 105,693 | 105,693 | 238,099 |
| Long-term debt | 1,660,149 | 597,080 | 136,455 | 136,455 | 136,455 | 136,455 | 517,249 |
| | 11,743,162 | 4,472,730 | 5,788,641 | 242,148 | 242,148 | 242,148 | 755,348 |

## 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.

## 19. Financial instruments (continued)

*Fair value hierarchy (continued)*

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, 2017, the Company was in a bank indebtedness position with banks of $324,566, (2016 - indebtedness position with banks of $4,576). During the years ended March 31, 2017 and 2016, 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 $2,704,816 (2016 - $3,076,791). As at March 31, 2017, trade receivables were comprised of two companies totalling 11% and 27% respectively (2016 - three companies totalling 11%, 15% and 14% respectively). As at March 31, 2017, the Company's ageing of accounts receivable was approximately 88% (2016 - 86%) under sixty days, 10% (2016 - 4%); over 60 - 90 days and 2% (March 31, 2016 - 10%) over 90 days and the allowance for doubtful accounts was nil (2016 - 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.

## 19. Financial instruments (continued)

*Fair value hierarchy (continued)*

*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 debt totalling $1,660,149. 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 $16,602 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 American 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, 2017, the Company had a foreign exchange loss of $82,069 (2016 - loss of $69,040). A 10% change in the value of the American dollar against the Canadian dollar would have an approximate foreign exchange gain or loss of $106,626 and $129,297 for the fiscal years ended March 31, 2017 and 2016, respectively.

Assets and liabilities denominated in American dollars (expressed in Canadian dollars) are as follows:

| | **2017** | 2016 |
|---|---|---|
| | **$** | $ |
| Bank indebtedness | **(220,590)** | (331,415) |
| Trade receivables | **777,983** | 1,267,865 |
| Unbilled revenue | **103,793** | 78,807 |
| Inventory | **53,196** | 57,277 |
| Property, plant and equipment, net | **2,905,345** | 2,894,160 |
| Trade and other payables | **(713,046)** | (439,332) |
| Deferred revenue | **(248,622)** | (224,298) |
| Long-term debt | **(1,606,236)** | (2,010,093) |
| | **1,051,823** | 1,292,971 |

*Liquidity risk*

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

The Company generally makes bi-monthly payments to vendors. As at March 31, 2017, 43% 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.

(In Canadian dollars)

## 19. Financial instruments (continued)

*Fair value hierarchy (continued)*

*Liquidity risk (continued)*

The Company is required to maintain certain financial covenants in connection with its existing banking arrangements (Note 7).

*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.

## 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:

| | **2017** | 2016 |
|---|---|---|
| | **$** | $ |
| Short-term employee benefits | **177,000** | 475,000 |

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, 2017, the Company incurred interest expense of $255,134 (2016 - $424,530) of which nil (2016 - $172,284) is interest on related party balances.

The senior officers have agreed to cancel their current consulting agreements and discontinue interest payments accruing on balances as of April 1, 2016. On March 31, 2017, the Company's senior officers agreed to defer payment of accumulated and unpaid consulting fees and salaries payable to August 2018. During fiscal 2017, a portion of these fees and salaries, amounting to $77,000 (2016 - $94,100), was paid to the senior officers. As at March 31, 2017, these outstanding fees and salaries to senior officers of the Company, who are also majority shareholders of Targa, amounted to $3,215,031 (2016 - $3,221,316) plus interest charges of $1,235,634 (2016 - $1,235,634) for a total payable of $4,450,665 (2016 - $4,456,950). 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 $1,454,345 (2016 - $2,226,805) 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 January 1, 2018.

## 22. Subsequent events

On May 25, 2017, the Company sold its fire and emergency vehicle business, formerly carried on by its wholly owned subsidiary AFTC, to 9584358 Canada Ltd. o/a Eastway Fire and Rescue Vehicles ("Eastway"). The transaction was by way of an asset sale by AFTC to Eastway. The purchase price paid by Eastway consisted of nominal cash consideration paid on closing and the obligation for Eastway to complete the outstanding existing fire truck contracts. Eastway has also agreed to a lease to use the Company's premises to carry on the business for a one-year period. Following the transaction, the Company is in the process of ceasing the operations of AFTC.

On May 31, 2017, Tidal Quality Management Corporation ("Tidal"), a related party controlled by the Company's President and Chief Executive Officer, refinanced its approximately $345,000 mortgage on one of its properties and increasing the loan to $900,000. The Company has guaranteed the Tidal loan and granted a security interest over its assets as security for this guarantee. Tidal used a portion of the proceeds from the refinancing to loan $554,447 to the Company. The loan to the Company has a one (1) term and bears interest at a rate of 14% per annum. Interest is payable monthly and the principal is due on maturity.