

Consolidated financial statements of

Plaintree Systems Inc.

March 31, 2018 and March 31, 2017

Plaintree Systems Inc.

March 31, 2018 and March 31, 2017

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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, 2018 and March 31, 2017, and the consolidated statements of comprehensive earnings (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Plaintiff Systems Inc. as at March 31, 2018 and March 31, 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
July 30, 2018
Ottawa, Canada

Plaintree Systems Inc.

Consolidated statements of financial position

as at March 31, 2018 and March 31, 2017

(in Canadian dollars)

	2018	2017
	\$	\$
Assets		
Current assets		
Cash	-	-
Trade receivables and other receivables	3,458,343	2,460,517
Unbilled revenue	1,733,249	244,299
Inventories (Note 5)	1,745,189	1,766,655
Prepaid expenses and other receivables	252,903	77,785
Assets classified as held for sale (Note 4)	-	10,686
	7,189,684	4,559,942
Property, plant and equipment (Note 9)	4,467,526	5,126,448
Intangible assets (Note 10)	527,312	655,713
	12,184,522	10,342,103
Liabilities		
Current liabilities		
Cash deficit	314,710	324,566
Trade and other payables	2,438,218	3,769,957
Deferred revenue	1,472,109	479,572
Current portion of long-term debt - bank (Note 6)	255,098	1,660,149
Current portion of due to related parties (Note 11)	356,000	-
Current portion of deferred government assistance (Note 8)	19,000	19,000
Current portion of obligations under lease capital (Note 7)	178,375	139,508
Current portion of government assistance (Note 8)	39,000	39,000
	5,072,510	6,431,752
Long-term debt - bank (Note 6)	867,305	
Deferred government assistance (Note 8)	86,710	108,058
Obligations under lease capital (Note 7)	386,560	438,169
Repayable government assistance - other (Note 8)	580,951	643,509
Due to related parties (Note 11)	5,757,466	5,835,109
	12,751,502	13,456,597
Shareholders' equity		
Issued capital	2	2
Contributed surplus	2,090,750	2,090,750
Deficit	(2,657,732)	(5,205,246)
	(566,980)	(3,114,494)
	12,184,522	10,342,103

Approved by the Board

"David Watson"

"Girvan Patterson"

Plaintree Systems Inc.

Consolidated statements of comprehensive earnings (loss)
years ended March 31, 2018 and March 31, 2017
(in Canadian dollars)

	2018	2017
	\$	\$
Revenue	19,005,680	12,844,110
Cost of sales	13,319,022	11,354,643
Gross margin	5,686,658	1,489,467
Operating expenses		
Research and development	1,414,423	1,173,394
Finance and administration	1,361,540	971,194
Sales and marketing	479,096	693,703
Impairment loss	-	311,427
Loss (gain) on disposal of assets	6,747	(56,178)
Bad debt	32,201	-
Interest expense	344,496	255,134
Loss on foreign exchange	43,203	82,069
	3,681,706	3,430,743
Net earnings (loss) before other gains	2,004,952	(1,941,276)
Other		
Gain (loss) from discontinued operations (Note 4)	542,562	(698,358)
Net earnings (loss) and comprehensive earnings (loss)	2,547,514	(2,639,634)
Basic and diluted earnings (loss) per common share (note 14)		
From continuing and discontinuing operations	0.08	(0.32)
From continuing operations	0.04	(0.26)
Weighted average common shares outstanding	12,925,253	12,925,253

Plaintree Systems Inc.

Consolidated statements of cash flows
years ended March 31, 2018 and March 31, 2017
(in Canadian dollars)

	2018	2017
	\$	\$
Operating activities		
Net earnings (loss)	2,547,514	(2,639,634)
Add (deduct) items not affecting cash		
Write-down of inventories	12,971	525,216
Impairment loss	-	311,427
Depreciation of intangible assets	137,021	136,265
Depreciation of property, plant and equipment	913,660	977,539
Loss on sale of property, plant and equipment	17,433	(65,178)
Changes in non-cash operating working capital items		
Trade and other receivables	(997,826)	251,293
Unbilled revenue	(1,488,950)	120,682
Inventories	8,495	(59,476)
Prepaid expenses and other receivables	(175,118)	13,319
Trade and other payables	(1,331,739)	1,430,740
Deferred revenue	992,537	(146,121)
Cash provided by operations	635,998	856,072
Investing activities		
Payments to acquire intangible assets	(8,620)	-
Payments to acquire property, plant and equipment	(279,285)	(245,803)
Proceeds from disposal of property, plant and equipment	17,800	228,353
Cash used in investing activities	(270,105)	(17,450)
Financing activities		
Repayment of government assistance	(83,906)	(39,798)
Repayment of long-term debt	(537,746)	(1,041,516)
Repayment of capital lease obligations	(12,742)	(40,861)
Increase in related party borrowings (Note 11)	278,357	(36,437)
Cash used in financing activities	(356,037)	(1,158,612)
Net cash inflow	9,856	(319,990)
(Bank Indebtness) (beginning of the year)	(324,566)	(4,576)
(Bank indebtedness), end of the year	(314,710)	(324,566)

Plaintree Systems Inc.

Consolidated Statement of changes in equity for the years ended March 31, 2018 and March 31, 2017

	Common Shares		Preferred Shares ⁽¹⁾		Contributed Surplus	Equity (Deficit)	Shareholders' Equity
	Number	Issued Capital	Number	Issued Capital			
Balances at March 31, 2017	12,925,253	\$ 1	18,325	\$ 1	2,090,750	(5,205,246)	(3,114,494)
Net earnings and comprehensive earnings						2,547,514	2,547,514
Balances at March 31, 2018	12,925,253	1	18,325	1	2,090,750	(2,657,732)	(566,980)

	Common Shares		Preferred Shares ⁽¹⁾		Contributed Surplus	Equity (Deficit)	Shareholders' Equity
	Number	Issued Capital	Number	Issued Capital			
Balances at March 31, 2016	12,925,253	\$ 1	18,325	\$ 1	2,090,750	(2,565,612)	(474,860)
Net earnings and comprehensive loss						(2,639,634)	(2,639,634)
Balances at 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 \$1000 per share plus accrued dividends; non-voting.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2018 and March 31, 2017

(In Canadian dollars)

1. Description of the business

Plaintree Systems Inc. ("Plaintree" or the "Company") was incorporated in Canada under the Canada Business Corporation Act and is publicly traded on the Canadian Securities Exchange ("CSE") under "NPT". The Company operates an Electronics division (the Hypernetics business) and Summit Aerospace USA Inc. ("Summit Aerospace") and a Specialty Structures division (the Triodetic business), Spotton Corporation and 9366920 Canada Inc. (operating as Madawaska Doors). Plaintree is a diversified company with proprietary technologies and manufacturing capabilities in structural design and aerospace. 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 Aerospace specializes in the high-end machining of super-alloys for the aircraft and helicopter markets. Spotton's business involves the design and manufacture of high-end custom hydraulic and pneumatic valves and cylinders for the industrial, oil and gas markets. The Madawaska Doors business involves the manufacturing and selling of high quality, 100% natural solid wood custom doors and related parts and materials. Until June 2017 the Speciality Structures division included Arnprior Fire Trucks Corp. ("AFTC") and on June 6, 2017, the Company completed the sale of assets and business of AFTC.

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

2. Basis of presentation

(a) *Statement of compliance*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and were approved for issue by the Board of Directors on July 27, 2018.

(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. (U.S. companies) and Arnprior Fire Trucks Corp. (Canadian Company) which was discontinued in June 2017 (Note 4), Spotton Corporation (Ontario Company) and Madawaska Doors Inc., through its wholly-owned subsidiary, 9366920 Canada Inc. (Canadian Company). Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries align with the policies adopted by the Company.

All inter-company transactions have been eliminated.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2018 and March 31, 2017

(In Canadian dollars)

3. Significant accounting policies

The significant accounting policies include the following:

Inventories

Inventories are valued using a standard costing formula and are stated at the lower of cost and net realizable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are allocated to the weighted average cost of inventory by the method most appropriate to the particular class of inventory. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Property, plant and equipment

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

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

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2018 and March 31, 2017

(In Canadian dollars)

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 statement of income in the period in which the facts that give rise to the revision become known. Provisions for estimated losses, if any, are recognized in the period in which the loss is determined. Contract losses are measured as the amount by which the estimated costs of the contract exceed the estimated total revenue from the contract.

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

In addition, a provision for potential warranty claims is recorded at the time of sale, based on warranty terms and prior claims experience.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2018 and March 31, 2017

(In Canadian dollars)

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 statements of comprehensive income (loss) are translated at average rates prevailing during the period. Exchange gains and losses resulting from the translation of these amounts are included in the statement of operations.

The accounts of the Company's wholly-owned U.S. subsidiaries, which have Canadian dollar functional currencies, have been translated into Canadian dollars using the exchange rates at period 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.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2018 and March 31, 2017

(In Canadian dollars)

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

This method requires management to estimate total costs and profits over the entire term of the contract.

Purchase price allocation

During fiscal 2017, 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.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2018 and March 31, 2017

(In Canadian dollars)

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 financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted, applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change of statutory tax rates is recognized in income in the period of enactment or substantive enactment. Deferred income tax assets are recognized to the extent it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.

Basic earnings (loss) per share for continued and discontinued operations

Earnings (loss) per share has been calculated on the basis of net income attributable to common shareholders divided by the weighted average number of common shares outstanding during the period. Earnings (loss) attributable to common shareholders is equal to net income (loss) less the dividends accumulated on the preferred shares. Diluted earnings (loss) per common share is calculated by dividing the applicable net income attributable to common shareholders by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the period. The Company uses the treasury stock method in determining the denominator for earnings (loss) per share. Under this method, it is assumed that the proceeds from the exercise of options are used to repurchase common shares at the weighted average market price of the shares for the period.

Financial instruments

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.

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.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2018 and March 31, 2017

(In Canadian dollars)

3. Significant accounting policies (continued)

Financial instruments (continued)

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 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.

New Standards effective April 2018

IFRS 9: Financial instruments

IFRS 9 Financial Instruments ("IFRS 9") The IASB issued the final version of IFRS 9 on July 24, 2014, which replaces IAS 39 Financial Instruments: Recognition and Measurement. This final version of IFRS 9 represents the completion of this project and it includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. IFRS 9 does not address the specific accounting for open portfolios or macro hedging as these items are part of a separate IASB project that is currently ongoing.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2018 and March 31, 2017

(In Canadian dollars)

3. Significant accounting policies (continued)

New Standards effective April 2018 (continued)

IFRS 9: Financial instruments (continued)

This final Standard introduces a single, principles-based approach that amends both the categories and associated criteria for the classification and measurement of financial assets, which is driven by the entity's business model for the portfolio in which the assets are held and the contractual cash flows of these financial assets. Certain amendments have been made to the financial asset classification and measurement principles in prior versions of IFRS 9.

This new Standard supersedes all prior versions of IFRS 9. The effective date for this standard began for annual periods beginning on or after April 1, 2018. The Company will begin to report under this standard for its reporting periods in fiscal 2019. IFRS 9 requires the Company to record expected credit losses on all trade receivables, either on a 12-month or lifetime basis. 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

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

IFRS 16: Leases

IFRS 16 Leases ("IFRS 16") The IASB issued a new standard, IFRS 16 on January 13, 2016, which supersedes IAS 17 Leases. The new standard brings most leases on the balance sheet for lessees under a single model and eliminates the distinction between operating and finance leases. Lessor accounting remains largely unchanged. The new standard will come into effect for periods beginning on or after April 1, 2019. The Company is currently evaluating the impact of IFRS 16 on its consolidated financial statements.

4 Discontinued Operations of Arnprior Fire Trucks Corp.

In May 2017, the company completed the sale of assets and business 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"), to 9584358 Canada Ltd. o/a Eastway Fire and Rescue Vehicles ("Eastway"). The Company and Eastway entered into an asset purchase agreement (the "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 leased the Company's premises to carry on the business until February 2018 when it ceased operations.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2018 and March 31, 2017

(In Canadian dollars)

5. Inventories

	2018	2017
	\$	\$
Raw materials	915,389	984,341
Work in process	698,496	595,782
Finished goods	131,304	186,532
	1,745,189	1,766,655

The cost of inventories recognized as an expense during the year was \$13,203,850 (2017 - \$14,400,157). The total carrying value of inventory as at March 31, 2018, was pledged as security through general security agreements under bank lines of credit and related party liabilities.

The Company wrote down its inventories by \$12,971 in fiscal 2018 (2017 - \$525,216) to reflect where the carrying amount exceeded net realizable value. The Company had write ups in the year totaling \$(115,305), (2017 - \$78,933).

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2018 and March 31, 2017

(In Canadian dollars)

6. Long-term debt

	2018	2017
	\$	\$
Bank loan bearing interest at a rate equal to the bank's LIBOR Rate plus 3.93%, due in monthly principal installments of \$4,028 secured by a general security agreement, matures May 2020	633,596	717,776
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	183,718	225,558
Demand non-revolving loan payable in monthly blended installments of principal and interest, at a rate of prime plus 1.5%, secured by general security agreement, maturing five years from the date of each draw-down or February 2022	43,093	53,013
Demand non-revolving loan payable in monthly blended installments of principal and interest, at a rate of prime plus 1.5%, secured by general security agreement, maturing five years from the date of each draw-down or October 2021	161,996	203,177
Demand non-revolving loan, interest only monthly payments at a rate of prime plus 2.0%, 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 1.5%, secured by a general security agreement, maturing ten years following full draw-down of the loan or February 2018.	-	57,633
Demand non-revolving loan payable in monthly installments of US\$36,957, interest at LIBOR plus 3% per annum, maturing September 2017	-	245,742
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
Term non-revolving loan payable in monthly installments of \$3,161, bearing interest at the rate of prime plus 1.25% per annum, maturing November 2017.	-	22,420
	1,122,403	1,660,149
Current portion	(255,098)	(1,660,149)
	867,305	-

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2018 and March 31, 2017

(In Canadian dollars)

6. Long-term debt (continued)

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

	\$
2019	255,098
2020	157,255
2021	159,322
2022	159,332
2023	69,240
Thereafter	322,156
	<u>1,122,403</u>

As of March 31, 2017, the Company was in breach of debt service coverage ratio and debt service ratio - 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 bank long-term debt for Fiscal 2017 was reclassified to current. The bank has waived the covenant requirements to April 1, 2019, and has continued to provide funding under the terms of the facility. As of March 31, 2018 the Company was onside with all bank covenants.

7. Obligation under capital lease

	2018	2017
	\$	\$
Capital lease payable in monthly installments of \$639, bearing interest at 2.49% per annum, maturing October 2019.	11,890	19,163
Capital lease payable in monthly installments of \$1,205, bearing interest at 5.994% per annum, maturing January 2020.	24,138	36,734
Capital lease payable in monthly installments of \$2,959 USD, bearing interest at 7.0 % per annum, maturing June 2021.	132,765	-
Capital lease payable in monthly installments of \$6,899 USD, bearing interest at 4.50% per annum, maturing October 2021.	352,684	455,277
Capital lease payable in monthly installments of \$2,158, bearing interest at 5.094% per annum, maturing January 2020.	43,458	66,503
	<u>564,935</u>	<u>577,677</u>
Current portion	<u>(178,375)</u>	<u>(139,508)</u>
	<u>386,560</u>	<u>438,169</u>

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2018 and March 31, 2017

(In Canadian dollars)

7. Obligation under capital lease (continued)

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

	\$
2019	200,621
2020	187,759
2021	152,603
2022	64,850
Thereafter	-
Net minimum lease payments	605,833

8. Government assistance

The Company's Summit Aerospace USA Inc. division accepted a loan of \$720,000 USD (\$928,368 CAD) from the Pennsylvania Industrial Development Authority (PIDA) as partial financing towards the manufacturing facility in Pocono Summit, PA purchased in May 2013. Monthly repayments are amortized over fifteen years at a fixed rate of 1.5%. The loan facility is for a term of seven years, funding 45% of the cost of the building, land and renovations.

The Company records the government loan at its estimated fair value at the date in which the payments are recorded. The estimated fair value of the loan payable is determined by discounting future cash flows associated with the loan at a discount rate which represents the estimated borrowing rate to the Company. The difference between the face value of the loan and the estimated fair value is deemed to be 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	682,509	127,058	809,567
Loan adjustment for exchange	(20,707)	(5,309)	(26,016)
Repayments	(59,252)	1,362	(57,890)
Accretion	17,401	(17,401)	-
March 31, 2018	619,951	105,710	725,661
Current Portion	(39,000)	(19,000)	(58,000)
Balance	580,951	86,710	667,661

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2018 and March 31, 2017

(In Canadian dollars)

9. Property, plant and equipment

	Factory equipment	Computer equipment	Furniture	Vehicles	Lease improvements	Building	Land	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Cost, balance								
March 31, 2016	7,165,820	1,072,357	204,082	488,317	2,248,357	1,954,928	325,431	13,459,292
Asset classified as held for sale	528,652	25,590	-	3,010	143,829	-	-	701,081
Disposals	(89,114)	(848)	-	(10,686)	-	-	-	(10,686)
March 31, 2017	7,605,358	1,097,099	204,082	444,666	2,191,361	1,857,088	275,431	13,675,085
Additions	191,211	3,597	-	14,587	69,890	-	-	279,285
Disposals	(18,885)	-	(664)	(5,000)	-	-	-	(24,549)
March 31, 2018	7,777,684	1,100,696	203,418	454,253	2,261,251	1,857,088	275,431	13,929,821
Accumulated depreciation, balance								
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)	-	(977,538)
March 31, 2017	(5,237,487)	(1,071,894)	(199,559)	(372,415)	(1,136,204)	(531,076)	-	(8,548,635)
Depreciation	(554,261)	(11,218)	(1,060)	(38,943)	(206,223)	(101,955)	-	(913,660)
March 31, 2018	(5,791,748)	(1,083,112)	(200,619)	(411,358)	(1,342,427)	(633,031)	-	(9,462,295)
Carrying amount,								
March 31, 2017	2,367,871	25,205	4,523	72,251	1,055,156	1,326,012	275,431	5,126,448
March 31, 2018	1,985,936	17,584	2,799	42,895	918,824	1,224,057	275,431	4,467,526

10. Intangibles

	Customer relationship	Non-competition agreement	Computer software	Total
	\$	\$	\$	\$
Cost, balance				
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
Additions	-	-	8,620	8,620
March 31, 2018	1,303,270	10,000	201,030	1,514,300
Accumulated depreciation, balance				
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)
Depreciation	(130,327)	(1,539)	(5,155)	(137,021)
March 31, 2018	(781,962)	(9,233)	(195,793)	(986,988)
Carrying amount,				
March 31, 2017	651,635	2,306	1,772	655,713
March 31, 2018	521,308	767	5,237	527,312

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2018 and March 31, 2017

(In Canadian dollars)

11. Due to related parties

	2018	2017
	\$	\$
Due to senior officers and directors	4,309,565	4,450,665
Dividends payable	60,000	60,000
Due to Targa Group Inc., interest convertible debentures	247,672	247,672
Due to Tidal Quality Management Inc.	762,073	228,616
Due to Targa Group Inc., demand loan	66,581	66,581
Due to Targa Group Inc., line of credit	532,763	646,763
Due to Targa Group Inc., demand loan interest	134,812	134,812
	6,113,466	5,835,109
Less: current portion	(356,000)	-
	5,757,466	5,835,109

As at March 31, 2018, total outstanding related party debt of \$4,309,565 consisted of \$4,273,565 (\$3,037,931 principal and \$1,235,634 interest); (\$4,450,950 consisting of \$3,215,031 principal and \$1,235,634 interest in 2017) due to senior officers of the Company and \$36,000 (nil in 2017) owing to a director of the Company for additional consulting services. During the fiscal year, repayments of \$177,100 (\$102,285 in 2017) were made to the senior officers. The senior officers had agreed to cancel their consulting agreements and discontinued interest payments accruing on balances then outstanding as of April 1, 2016. The amount of \$3,953,565 is classified as long-term as the related parties have agreed not to demand repayment before August 2019.

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 (2017 - \$60,000) of the dividend remains outstanding as at March 31, 2018. The balance is classified as long-term as the related party has agreed not to demand payment before August 2019.

As at March 31, 2018, a balance of \$247,672 (\$247,672 in 2017) of the due to related parties related to the interest portion on convertible debentures. The balance is classified as long-term as the related party has agreed not to demand payment before August 2019.

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, 2017 - \$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, 2018 a balance of \$269,767 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 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, 2018 (March 31, 2017 - \$182,889). The party has agreed not to demand repayment of the total balance of \$207,626 (March 31, 2017 - \$228,616) before August 2019 and the amount is classified as long-term.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2018 and March 31, 2017

(In Canadian dollars)

11. Due to related parties (continued)

On May 31, 2017, Tidal refinanced its approximately \$345,000 mortgage on one of its properties, increasing the mortgage to \$900,000. Plaintree 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 related party loan bears interest at a rate of 14% per annum. Interest is payable monthly and the principal is due on maturity. The balance is classified as long-term as the related party has agreed not to demand payment before August 2019.

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, 2018, \$NIL, (2017 - \$Nil) remained outstanding on the demand loan with accumulated interest of \$66,581 (2017 - \$66,581). As at March 31, 2018, \$290,165 (2017 - \$404,165) remained outstanding on the line of credit with accumulated interest of \$242,598 (2017 - \$242,598) for a balance of \$532,763 (2017 - \$646,763). Targa has agreed that it will not demand repayment before August 2019 and, accordingly, the amounts are classified as long-term.

Accumulated interest in the amount of \$134,812 (2017 - \$134,812), on a loan from Targa remains outstanding as of March 31, 2018. The party has agreed not to demand repayment before August 2019 and, accordingly, the amount is classified as long-term.

12. Trade and other payables

Trade and other payables are comprised of the following:

	2018	2017
	\$	\$
Accounts payable	1,581,704	2,568,911
Accrued liabilities	323,154	683,309
Salaries and benefits payable	533,360	517,737
	2,438,218	3,769,957

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2018 and March 31, 2017

(In Canadian dollars)

13. 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, 2018, the accrued and unpaid dividends on the Class A preferred shares were \$13,860,000 (2017 - \$12,394,000)

Issued

	\$
Common shares	12,925,253
Class A preferred shares	18,325

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, 2018 or March 31, 2017.

14. Basic and diluted earnings per common share

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

For the years ended March 31, 2018 and 2017, diluted earnings per share equals basic earnings per share due to the anti-dilutive effect of options and convertible instruments.

	2018	2017
	\$	\$
Net profit (loss)	2,547,514	(2,639,634)
Cumulative dividends on preferred shares - per annum	(1,466,000)	(1,466,000)
Net profit (loss) attributable to common shares (basic and diluted)	1,081,514	(4,105,634)
Basic and diluted weighted average shares outstanding	12,925,253	12,925,253
Basic and diluted earnings (loss) per share from continuing and discontinued operations	0.08	(0.32)
Basic and diluted earnings (loss) per share from continuing operations	0.04	(0.26)

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2018 and March 31, 2017

(In Canadian dollars)

15. 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. The Company determines the geographic location of revenue based on the location of its customers. Of the total balance of \$4,467,526 in property, plant and equipment \$1,956,435 is located in Canada and \$2,511,091 in the United States. All of the Company's intangible assets are primarily located in Canada.

Revenue by division

	2018	2017
	\$	\$
Electronics	6,213,805	6,200,658
Specialty Structures	12,791,875	6,643,452
	19,005,680	12,844,110

Revenue by geographical location

	2018	2017
	\$	\$
Canada	7,348,090	5,141,769
United States	6,808,215	7,516,686
Chile	3,421,756	71,867
Argentina	938,154	-
Kuwait	444,798	-
Other	44,667	113,788
	19,005,680	12,844,110

Net income (loss) before taxes by division

	2018	2016
	\$	\$
Electronics	628,653	656,816
Specialty Structures	1,376,299	(2,598,092)
	2,004,952	(1,941,276)

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

	2018	2017
Number of customers	1	2
% of total revenue	16%	10%, 12%

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2018 and March 31, 2017

(In Canadian dollars)

15. Business segment information (continued)

Assets by division

	2018	2017
	\$	\$
Electronics	11,533,668	6,611,843
Specialty Structures	600,853	3,730,260
	12,134,521	10,342,103

16. Income taxes

Deferred income taxes reflect the impact of loss carry-forwards and of temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts are measured by tax laws. The tax effects of temporary differences and loss carry-forwards that gave rise to significant portions of the deferred tax asset, which have not been recognized, are as follows:

	2018	2017
	\$	\$
Accounting depreciation in excess of tax	133,000	(16,000)
Research and development expenses not deducted for tax	5,518,000	5,952,000
Losses available to offset future income taxes	1,663,000	1,943,000
Valuation allowance	(7,314,000)	(7,879,000)
	-	-

The Company has claimed less research and development expenses for income tax purposes than has been reflected in the financial statements. These unclaimed expenses total approximately \$19,116,450 (2017 - \$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, 2018, the Company has approximately \$617,000 (2017 - \$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

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2018 and March 31, 2017

(In Canadian dollars)

16. Income taxes (continued)

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:

	2018	2017
	\$	\$
Net income (loss) before income taxes	2,547,081	(2,639,634)
Canadian statutory rate	26.5%	26.5%
Expected income tax expense (benefit)	674,976	(699,503)
Changes in unrealized deferred tax assets	(589,737)	456,434
True Up on Future Taxes	24,737	(44,434)
Permanent differences	4,948	88,333
Foreign Rate Differential	(62,832)	14,699
Benefit of current loss and assets of subsidiary not recorded	-	125,995
Other	(52,092)	58,476
Income tax expense	-	-

The Company has losses available to reduce future years' Canadian federal taxable income totaling approximately \$6,280,000. These potential benefits expire as follows:

2032	570,000
2033	513,000
2034	523,000
2035	582,000
2036	1,403,000
2037	2,280,000
2038	409,000
	6,280,000

The Company has U.S. losses of approximately \$2,537,000, which begin to expire in 2032.

17. 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.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2018 and March 31, 2017

(In Canadian dollars)

17. Guarantees, commitments and contingencies (continued)

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:

	\$
2019	105,693
2020	105,693
2021	105,693
2022	105,693
2023	105,693
Thereafter	132,116
	<u>660,581</u>

Product warranties

As part of the normal sale of product, the Company provides its customers with standard one-year product warranties. The Company currently has parts only warranty obligations that are included with the normal sale of the product. 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.

Contractual obligations

The following table provides a summary of the Company's obligations outstanding as at March 31, 2018:

Payments due by period

	Total	Current	2019	2020	2021	2022	Thereafter
	\$	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	2,438,218	2,438,218	-	-	-	-	-
Due to related parties - convertible debentures	247,672	-	247,672	-	-	-	-
Due to related parties - other	5,131,638	356,000	4,775,638	-	-	-	-
Due to related parties - line of credit	532,763	-	532,763	-	-	-	-
Due to related parties - demand loan	201,393	-	201,393	-	-	-	-
Due to related parties - lease payments	660,581	105,693	105,693	105,693	105,693	105,693	132,116
Lease commitments	605,833	200,621	187,759	152,603	64,850	-	-
Long-term debt	1,122,403	255,098	157,255	159,322	159,332	69,240	322,156
	<u>10,940,501</u>	<u>3,355,630</u>	<u>6,208,173</u>	<u>417,618</u>	<u>329,875</u>	<u>174,933</u>	<u>454,272</u>

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2018 and March 31, 2017

(In Canadian dollars)

18. Financial instruments

Fair value hierarchy

Financial instruments recorded at fair value on the Statements of Financial Position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Cash is classified as a Level 1 financial instrument. During the year, there has been no significant transfer of amounts between Level 1 and Level 2. There are no items classified in Level 2 or 3.

The Company has exposure to credit risk, market risk and liquidity risk associated with its financial assets and liabilities. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Audit Committee is responsible for developing and monitoring the Company's compliance with risk management policies and procedures. The Audit Committee regularly reports to the Board of Directors on its activities.

The Company's risk management program seeks to minimize potential adverse effects on the Company's financial performance and ultimately shareholder value. The Company manages its risks and risk exposures through a combination of insurance, a system of internal and disclosure controls, sound business practices and on occasion derivative financial instruments.

Credit risk

Credit risk arises from cash held with banks 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, 2018, the Company was in a bank indebtedness position with banks of \$(314,710), (2017 - indebtedness position with banks of \$(324,566)).

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.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2018 and March 31, 2017

(In Canadian dollars)

18. Financial instruments (continued)

Fair value hierarchy (continued)

Accounts receivable (continued)

This risk is mitigated through established credit evaluation, approval and monitoring processes intended to mitigate potential credit risks. The carrying amount of trade receivables are reduced through the use of an allowance for doubtful accounts and the amount of the loss is recognized in the statement of comprehensive income (loss). When a receivable balance is considered uncollectible, it is written off against the allowance for trade receivables.

Maximum credit risk is limited to the balance in cash, trade receivables and unbilled revenue totaling \$5,191,592 (2017 - \$2,704,816). As at March 31, 2018, trade receivables were comprised of two companies totaling 12% and 32% respectively (2017 - two companies totaling 11% and 27% respectively). As at March 31, 2018, the Company's ageing of accounts receivable was approximately 74% (2017 - 88%) under sixty days, 1% (2017 - 10%); over 60 - 90 days and 25% (March 31, 2017 - 2%) over 90 days and the allowance for doubtful accounts was \$32,343 (2017 - \$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 debt totaling \$1,122,403. The variable interest rates range from prime plus 1.5% to prime plus 2.0%. A 1% change in the bank prime interest rate causes a \$11,224 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, 2018, the Company had a foreign exchange loss of \$43,203 (2017 - loss of \$82,069). 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 \$186,308 and \$105,182 for the fiscal years ended March 31, 2018 and 2017, respectively.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2018 and March 31, 2017

(In Canadian dollars)

18. Financial instruments (continued)

Fair value hierarchy (continued)

Foreign currency risk (continued)

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

	2018	2017
	\$	\$
Cash (Bank indebtedness)	408,818	(220,590)
Trade receivables	760,708	777,983
Unbilled revenue	8,678	103,793
Inventory	120,125	53,196
Property, plant and equipment, net	2,653,078	2,905,345
Intangibles	3,675	-
Trade and other payables	(557,261)	(713,046)
Deferred revenue	(104,074)	(248,622)
Long-term debt	(1,430,671)	(1,606,236)
	1,863,077	1,051,823

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, 2018, 94% 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 6).

Fair values

The carrying amounts for bank indebtedness, 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.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2018 and March 31, 2017

(In Canadian dollars)

19. 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:

	2018	2017
	\$	\$
Short-term employee benefits	232,415	177,000

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, 2018, the Company incurred interest expense of \$344,496 (2017 - \$255,134) of which \$104,577 (2017 - \$NIL) is interest on related party balances as described in Note 12.

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, 2018 one of the Company's senior officers agreed to defer payment of accumulated and unpaid consulting fees and salaries payable to August 2019. During fiscal 2018, a portion of these fees, loans and salaries, amounting to \$102,100 (2017 - \$77,000), was paid to the senior officers. As at March 31, 2018, these outstanding fees and salaries to senior officers of the Company, who are also majority shareholders of Targa, amounted to \$3,037,931 (2017 - \$3,215,031) plus interest charges of \$1,235,634 (2017 - \$1,235,634) for a total payable of \$4,273,565 (2017 - \$4,450,665). These amounts are included in due to related parties (Note 11).

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