
Consolidated financial statements of Plaintree Systems Inc.

March 31, 2019 and March 31, 2018

Plaintree Systems Inc.

March 31, 2019 and March 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of

PLAINTREE SYSTEMS INC.

Opinion

We have audited the consolidated financial statements of Plaintiff Systems Inc. (the Company), which comprise the consolidated statement of financial position as at March 31, 2019, the consolidated statements of comprehensive earnings, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at March 31, 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The consolidated financial statements of the Company for the year ended March 31, 2018 were audited by another auditor who expressed an unmodified opinion on those financial statements on July 30, 2018.

Other Information

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, in the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Bryan Haralovich.

A handwritten signature in black ink that reads "Welch LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants
Licensed Public Accountants

Ottawa, Ontario
July 24, 2019.

Plaintree Systems Inc.

Consolidated statements of financial position
as of March 31, 2019 and March 31, 2018
(in Canadian dollars)

	2019	2018
	\$	\$
Assets		
Current assets		
Cash	838,280	-
Trade receivables and other receivables	4,296,018	3,458,343
Unbilled revenue	882,341	1,733,249
Inventories (Note 5)	1,037,430	1,745,189
Prepaid expenses and other receivables	115,760	252,903
Assets held for sale (Note 4)	4,152,032	-
	11,321,861	7,189,684
Property, plant and equipment (Note 9)	4,449,861	4,467,526
Intangible assets (Note 10)	395,129	527,312
	16,166,851	12,184,522
Liabilities		
Current liabilities		
Cash deficit	1,649,071	314,710
Trade and other payables (Note 12)	1,641,285	2,438,218
Liabilities directly associated with assets held for sale (Note 4)	305,593	-
Deferred revenue	509,976	1,472,109
Current portion of long-term debt (Note 6)	169,942	255,098
Current portion of due to related parties (Note 11)	50,000	356,000
Current portion of deferred government assistance (Note 8)	15,900	19,000
Current portion of obligations under lease capital (Note 7)	273,847	178,375
Current portion of government assistance (Note 8)	47,500	39,000
	4,663,114	5,072,510
Long-term debt (Note 6)	763,218	867,305
Deferred government assistance (Note 8)	76,944	86,710
Obligations under lease capital (Note 7)	613,218	386,560
Repayable government assistance - other (Note 8)	549,377	580,951
Due to related parties (Note 11)	5,816,178	5,757,466
Deferred tax liabilities (Note 16)	129,000	-
	12,611,049	12,751,502
Shareholders' equity (deficiency)		
Issued capital (Note 13)	2	2
Contributed surplus	2,090,750	2,090,750
Retained earnings (deficit)	1,465,050	(2,657,732)
	3,555,802	(566,980)
	16,166,851	12,184,522

Approved by the Board

David Watson

Girvan Patterson

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

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Plaintree Systems Inc.

Consolidated statements of comprehensive earnings

years ended March 31, 2019 and March 31, 2018

(in Canadian dollars)

	2019	2018
	\$	\$
Revenue	17,002,520	14,276,164
Cost of sales	13,355,225	10,335,574
Gross margin	3,647,295	3,940,590
Operating expenses		
Research and development	1,154,115	1,143,251
Finance and administration	1,376,186	1,310,718
Sales and marketing	536,463	263,202
Bad debt	-	32,201
Loss on disposal of assets	91,297	3,212
Interest expense	417,219	323,683
Loss on foreign exchange	27,541	(17,112)
	3,602,821	3,059,154
Net earnings from continuing operations before non-recurring items	44,474	881,436
Financing fees (Note 17)	164,329	-
Net (loss) earnings from continuing operations before tax	(119,855)	881,436
Income tax expense (Note 16)		
Current	2,818	-
Deferred	129,000	-
	131,818	-
Net (loss) earnings from continuing operations	(251,673)	881,436
Gain on operations held for sale (Note 4, 16)	4,059,701	1,666,078
Net earnings and comprehensive earnings	3,808,028	2,547,514
Basic and diluted earnings (loss) per common share (Note 14)		
From continuing and held for sale operations	0.18	0.08
From continuing operations	(0.13)	(0.05)
Weighted average common shares outstanding	12,925,253	12,925,253

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

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Plaintree Systems Inc.

Consolidated statements of cash flows
years ended March 31, 2019 and March 31, 2018

(in Canadian dollars)

	2019	2018
	\$	\$
Operating activities		
Comprehensive earnings	3,808,028	2,547,514
Add (deduct) items not affecting cash:		
Assets held for sale	(1,944,202)	-
Deferrred tax assets	(2,207,830)	-
Liabilities on assets held for sale	305,593	-
Write-down of inventories	122,761	12,971
Depreciation of intangible assets	137,109	137,021
Depreciation of property, plant and equipment	946,052	913,660
Loss on sale of property, plant and equipment	6,768	17,433
Property, plant and equipment - held for sale	157,686	-
Deferred tax liabilities	129,000	-
Changes in non-cash operating working capital items	-	-
Trade and other receivables	(837,675)	(997,826)
Unbilled revenue	1,165,663	(1,488,950)
Inventories	584,998	8,495
Prepaid expenses and other receivables	137,143	(175,118)
Trade and other payables	(796,931)	(1,331,739)
Deferred revenue	(962,133)	992,537
Cash provided by operations	752,030	635,998
Investing activities		
Payments to acquire intangible assets	(4,926)	(8,620)
Payments to acquire property, plant and equipment	(704,692)	(279,285)
Proceeds from disposal of property, plant and equipment	230,100	17,800
Cash used in investing activities	(479,518)	(270,105)
Financing activities		
Repayment of government assistance	(35,940)	(83,906)
Repayment of long-term debt	(189,244)	(537,746)
Repayment of capital lease obligations	(296,120)	(12,742)
Increase (decrease) in related party borrowings (Note 11)	(247,288)	278,357
Cash provided (used) in financing activities	(768,592)	(356,038)
Net cash inflow	(496,081)	9,854
(Net cash deficit) (beginning of the year)	(314,710)	(324,566)
(Net cash deficit), end of the period	(810,791)	(314,712)
Net cash deficit is comprised of the following:		
Cash	838,280	-
Cash deficit	(1,649,071)	(314,710)
	(810,791)	(314,710)

Cash deficit represents timing differences on cash transfers.

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

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PLAINTREE SYSTEMS INC.

Consolidated Statement of changes in equity
for the years ended March 31, 2019 and March 31, 2018
(in Canadian dollars)

	Common Shares Number	Issued Capital \$	Preferred Shares (1) Number	Issued Capital \$	Contributed Surplus \$	Retained earnings (deficit) \$	Shareholders' Equity \$
Balances at March 31, 2018	12,925,253	1	18,325	1	2,090,750	(2,657,732)	(566,980)
Adjustment on initial application of IFRS 15 (note 3)						314,754	314,754
Adjusted balance, April 1, 2018	12,925,253	1	18,325	1	2,090,750	(2,342,978)	(252,226)
Net earnings and comprehensive earnings						3,808,028	3,808,028
Balances at March 31, 2019	12,925,253	1	18,325	1	2,090,750	1,465,050	3,555,802

	Common Shares Number	Issued Capital \$	Preferred Shares (1) Number	Issued Capital \$	Contributed Surplus \$	Retained earnings (deficit) \$	Shareholders' Equity * \$
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)

(1) Class A Shares have a 8% cumulative dividend, calculated on redemption amount, redeemable at the option of the Company at any time at \$1000 per share plus accrued dividends; non-voting.

* The Company adopted IFRS 15 as described in Note 3. Under this adoption, the comparative information is not restated.

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

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Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2019 and March 31, 2018

(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, consisting of Summit Aerospace USA Inc. ("Summit Aerospace") and a Specialty Structures division (the Triodetic business) and Spotton Corporation. Plaintree is a diversified company with proprietary technologies and manufacturing capabilities in structural design and aerospace. The Triodetic business is a design/build manufacturer of steel, aluminum, and stainless steel specialty structures such as commercial domes, free form structures, barrel vaults, space frames, and industrial dome coverings. Summit Aerospace specializes in the high-end machining of super-alloys for the aircraft and helicopter markets. Spotton's business involves the design and manufacture of high-end custom hydraulic and pneumatic cylinders for the industrial, automation and oil and gas markets.

Until June 2017 the Specialty Structures division included Arnprior Fire Trucks Corp. ("AFTC") and on June 6, 2017, the Company completed the sale of assets and business of AFTC.

Until October 31, 2018, the Specialty Structures division included Madawaska Doors business. On March 31, 2019, the Company completed the sale of assets and the business of Madawaska Doors.

Until March 31, 2019, the Electronics division included the business of Hypernetics, a manufacturer of avionic components for various applications including aircraft antiskid braking, aircraft instrument indicators, solenoids, and permanent magnet alternators. The assets and liabilities associated with this business were held for sale as at March 31, 2019.

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 24, 2019.

(b) Basis of measurement

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

(c) Basis of consolidation

The consolidated financial statements include the accounts of Plaintree Systems Inc. and its wholly-owned subsidiaries: Summit Aerospace USA Inc. and Triodetic Inc. (U.S. companies) and Arnprior Fire Trucks Inc. (Canadian company) which was discontinued in June 2017 (Note 4), Spotton Corp. (Canadian company) and Madawaska Doors Inc., which was discontinued on March 2018, 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 inter-company transactions have been eliminated.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2019 and March 31, 2018

(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

Intangible assets

The Company's intangible assets consist of a customer relationship, a non-competition agreement and software. Intangible assets are stated at cost less accumulated depreciation and accumulated impairment for losses. The Company uses the income approach to determine the fair value of its acquired customer relationship and non-competition agreement intangible assets. This approach is a valuation technique that calculates the fair value of an intangible asset based on the cash flows that an asset can be expected to generate over its remaining useful life. These assets are capitalized and are amortized to operations over their estimated useful lives from the date that they are acquired and available for use, since this most closely reflects the expected usage and consumption patterns related to the future economic benefits embodied in the assets. The Company considers the length of time over which it expects to earn or recover the present value of the assets. Depreciation is recognized so as to write off the cost of assets over their useful lives using the straight-line method as follows:

Software	2 years
Customer relationship	10 years
Non-competition agreement	6.5 years

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.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2019 and March 31, 2018

(In Canadian dollars)

3. Significant accounting policies - Cont'd.

Revenue recognition

Revenue is recognized upon transfer of control of products or services to customers at an amount that reflects the consideration the Company expects to receive in exchange for the products or services. This is achieved through applying the following five-step model:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligation in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligation in the contract
- Recognition of revenue when, or as, the Company satisfies a performance obligation

The Company generates substantially all of its revenue from contracts with customers, whether formal or implied for the delivery of customized products and services.

Given the custom nature of the products sold by the Company revenue is recognize over time using the percentage of completion method of services rendered that reflects the extent of work accomplished. Management estimates the percentage-of-completion by reference to measures of performance that are reasonably determinable and are directly related to the activities critical to completion of the contract. The Company uses this method of revenue recognition as projected contract revenue and costs may reasonably be estimated based on the Company's business practices, methods and historical experience. This method requires estimates of costs and profits over the entire term of the contract. Management regularly reviews underlying estimates of project profitability; revisions to estimates are reflected in the statement of income in the period in which the facts that give rise to the revision become known. Provisions for estimated losses, if any, are recognized in the period in which the loss is determined. Contract losses are measured as the amount by which the estimated costs of the contract exceed the estimated total revenue from the contract.

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

Warranty obligations associated with the sale of equipment are assurance-type warranties and therefore do not represent a distinct performance obligation. The Company records a provision for assurance-type warranties at the time equipment sales are recognized as revenue.

Professional services may be provided for training and support. Professional services are typically billed on a time and material basis and revenue is recognized over time as the services are performed or delivered.

Generally the Company's performance obligations have an expected duration of under one year and as such the Company has elected to apply the practical expedient available under IFRS 15 to not disclose information relating to remaining performance obligations.

The Company recognizes an asset for the incremental costs of obtaining a contract with a customer if it expects the costs to be recoverable. Capitalized contract acquisition costs are amortized consistent with the pattern of transfer to the customer for the goods and services to which the asset relates. The Company applies the practical expedient available under IFRS 15 and does not capitalize incremental costs of obtaining contracts if the amortization period is one year or less. The Company had no material contract assets or liabilities.

The Company has elected to apply the practical expedient to not adjust the total consideration over the contract term for the effect of a financing component if the period between the transfer of services to the customer and the customer's payment for these services is expected to be one year or less.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2019 and March 31, 2018

(In Canadian dollars)

3. Significant accounting policies – Cont'd.

Business combination

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

Functional currency

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

Monetary assets and liabilities, which are denominated in foreign currencies, are translated to the entity's functional currency at period end exchange rates, and transactions included in the consolidated statement of comprehensive earnings (loss) are translated at average rates prevailing during the period. Exchange gains and losses resulting from the translation of these amounts are included in the consolidated statement of comprehensive earnings.

The accounts of the Company's wholly-owned U.S. subsidiaries, which have Canadian dollar functional currencies, have been translated into Canadian dollars using the exchange rates at period end for monetary items and at exchange rates at the transaction date for non-monetary items measured at historical costs.

Stock option plans

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

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, 2019 and March 31, 2018

(In Canadian dollars)

3. Significant accounting policies - Cont'd.

Revenue recognition

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

Revenue for customized products is recognized over time based on the estimated percentage-of-completion of services rendered at each period-end. This method requires management to estimate total costs and profits over the entire term of the contract.

Impairment of trade receivables

Management determines the estimated recoverability of trade receivables based on the evaluation and ageing of trade receivables, including the current creditworthiness and the past collection history of the customers and reviews these estimates at the end of each reporting period. The Company maintains an allowance for doubtful accounts to provide for impairment of trade receivables.

Impairment of long-lived assets

Long-lived assets, including property and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset or a cash generating unit is the higher of its fair value, less costs of disposal, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased, except for goodwill, to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously. Management uses information available to estimate if indicators of impairment exist when calculating the fair value amount.

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.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2019 and March 31, 2018

(In Canadian dollars)

3. Significant accounting policies - Cont'd.

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.

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

Financial assets and financial liabilities are recognized when the Company becomes party to the contractual provisions of the instrument.

Trade receivables are initially measured at the transaction price which represents fair value at the date of the transaction. All financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2019 and March 31, 2018

(In Canadian dollars)

3. Significant accounting policies - Cont'd.

Financial assets

All financial assets are recognized and de-recognized on trade date.

The Company determines the classification of its financial assets on the basis of both the business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets.

A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows, and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

<u>Financial asset</u>	<u>Classification under IFRS 9</u>
Cash and cash equivalents	Amortized cost
Trade and other receivables	Amortized cost
Unbilled receivables	Amortized cost

Amortized cost

Subsequent to initial recognition, financial assets at amortized cost are measured using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate except for short-term receivables where the interest revenue would be immaterial. Interest income, foreign exchange gains and losses, impairment, and any gain or loss on de-recognition are recognized in profit or loss.

Impairment of financial assets

The Company measures a loss allowance based on the lifetime expected credit losses. Lifetime expected credit losses are estimated based on factors such as the Company's past experience of collecting payments, the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables, financial difficulty of the borrower, and it becoming probable that the borrower will enter bankruptcy or financial re-organization.

Financial assets are written off when there is no reasonable expectation of recovery.

Financial liabilities

The Company determines the classification of its financial liabilities at initial recognition. The Company's financial liabilities are classified as follows:

<u>Financial liability</u>	<u>Classification under IFRS</u>
Trade payables and accrued liabilities	Amortized cost
Bank loans, loans	Amortized cost

Amortized cost

Financial liabilities at amortized cost are measured using the effective interest rate method, including the impact of deferred financing fees.

De-recognition of financial liabilities

The Company de-recognizes financial liabilities when the Company's obligations are discharged, cancelled or they expire.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2019 and March 31, 2018

(In Canadian dollars)

3. Significant accounting policies - Cont'd.

Changes in significant accounting policies

(a) IFRS 9 - Financial instruments ("IFRS 9")

Effective April 1, 2018, the Company adopted IFRS 9, which sets out the requirements for recognition and measurement, impairment, derecognition and general hedge accounting. 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 requires the use of a single impairment method as opposed to the multiple methods in IAS 39. This approach in IFRS 9 is based on how the Company 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.

The adoption of IFRS 9 has not had an effect on the Company's accounting policies related to financial liabilities.

There was no material impact of the transition to IFRS 9 on the Company's statement of financial position at March 31, 2018.

(b) IFRS 15 – Revenue from contracts with customers ("IFRS 15")

IFRS 15 provides a single, principles-based five-step model for revenue recognition to be applied to all customer contracts, and requires enhanced disclosures. The standard also provides guidance relating to recognition of customer contract acquisitions and fulfilment costs.

Effective April 1, 2018 the Company adopted IFRS 15 using the cumulative effect method.

The impact of the transition is shown below.

	Impact of adopting IFRS at April 1, 2018
	\$
Accelerated recognition of contract performance for manufactured products	324,105
Related commission expenses	(9,351)
	314,754

Prior to the adoption of IFRS 15, the Company recognized revenue either at a point in time or over time. On adoption of IFRS 15, the majority of the revenue is recorded over time. The adjustment reflects the cumulative impact of moving from point in time recognition to over time using the percentage of completion method.

Effective April 1, 2018, the Company adopted IFRS 15 using the cumulative effect method, with the effect of adopting this standard recognized on April 1, 2018, the date of initial application. Accordingly, the information presented for 2018 has not been restated. It remains as previously reported under IAS 18, IAS 11 and related interpretations.

Prior to adopting IFRS 15, contract costs including commissions paid to employees were expensed upon completion of the related contract revenue.

In its adoption of IFRS 15, the Company has elected to apply the requirements of the new standard only to contracts that are incomplete at the date of initial application. The Company has also elected to apply contract modification practical expedient and reflect the aggregate effect of all contract modifications prior to the transition date.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2019 and March 31, 2018

(In Canadian dollars)

3. Significant accounting policies - Cont'd.

(b) IFRS 15 - Revenue from contracts with customers ("IFRS 15") – Cont'd.

Impact of adopting IFRS 15:

The following tables summarize the impact of adopting IFRS 15 on the Company's consolidated statements of financial position as at March 31, 2019 and its annual consolidated statements of comprehensive income for the year ended March 31, 2019. There was no material impact on the Company's consolidated statements of cash flows for the year ended March 31, 2019.

Impact on the condensed consolidated interim statements of financial position as at March 31, 2019:

	As reported	IFRS15 Adjustment	Amount without IFRS 15
	\$	\$	\$
Assets			
Current assets			
Cash	838,280	-	838,280
Trade receivables and other receivables	4,296,018	-	4,296,018
Unbilled revenue	882,341	(340,799)	541,542
Inventories	1,037,430	247,933	1,285,363
Prepaid expenses and other receivables	115,760	-	115,760
Assets classified as held for sale	4,152,032	(380,237)	3,771,795
	11,321,861	(473,103)	10,848,758
Property, plant and equipment	4,449,861	-	4,449,861
Intangible assets	395,129	-	395,129
	16,166,851	(473,103)	15,693,748
Liabilities			
Current liabilities			
Cash deficit	1,649,071	-	1,649,071
Trade and other payables	1,641,285	-	1,641,285
Liabilities directly associated with assets held for sale	305,593	-	305,593
Deferred revenue	509,976	-	509,976
Current portion of long-term debt - bank	169,942	-	169,942
Current portion of due to related parties	50,000	-	50,000
Current portion of deferred government assistance	15,900	-	15,900
Current portion of obligations under lease capital	273,847	-	273,847
Current portion of government assistance	47,500	-	47,500
	4,663,114	-	4,663,114
Long-term debt - bank	763,218	-	763,218
Deferred government assistance	76,944	-	76,944
Obligations under lease capital	613,218	-	613,218
Repayable government assistance - other	549,377	-	549,377
Due to related parties	5,816,178	-	5,816,178
Deferred tax liabilities (Note 16)	129,000	-	129,000
	12,611,049	-	12,611,048
Shareholders' equity			
Issued capital	2	-	2
Contributed surplus	2,090,750	-	2,090,750
Deficit	1,465,050	(473,103)	991,948
	3,555,802	(473,103)	3,082,700
	16,166,851	(473,103)	15,693,748

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2019 and March 31, 2018

(In Canadian dollars)

3. Significant accounting policies - Cont'd.

(b) IFRS 15 - Revenue from contracts with customers ("IFRS 15") - Cont'd.

Impact of adopting IFRS 15: - Cont'd.

	As reported \$	IFRS 15 Adjustment	Amount without IFRS 15
Revenue	17,002,520	(340,799)	16,661,721
Cost of sales	13,355,225	(247,933)	13,107,292
Gross margin	3,647,295	(92,866)	3,554,429
Operating expenses			
Research and development	1,154,115	-	1,154,115
Finance and administration	1,376,186	-	1,376,186
Sales and marketing	536,463	-	536,463
Loss on disposal of assets	91,297	-	91,297
Interest expense	417,219	-	417,219
Loss on foreign exchange	27,541	-	27,541
	3,602,821	-	3,602,821
Net earnings from continuing operations before non-recurring items	44,474	(92,866)	(48,392)
Financing fees	164,329		164,329
Net (loss) earnings from continuing operations after tax	(119,855)	(92,866)	(212,721)
Income tax expense (Note 16)			
Current	2,818	-	2,818
Deferred	129,000	-	129,000
	131,818	-	131,818
Net (loss) earnings from continuing operations	(251,673)	(92,866)	- 344,539
Gain on operations held for sale	4,059,701	(380,237)	3,679,464
Total comprehensive earnings	3,808,028	(473,103)	3,334,925
Basic and diluted earnings (loss) per common share			
From continuing and held for sale operations	0.18		0.18
From continuing operations	(0.12)		(0.12)
Weighted average common shares outstanding	12,925,253		12,925,253

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2019 and March 31, 2018

(In Canadian dollars)

3. Significant accounting policies - Cont'd.

New and revised IFRS in issue but not yet effective:

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. Operations held for sale

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.

Madawaska Doors

As of October 2018, the Company deemed the assets of 9366920 Canada Inc (operating as Madawaska Doors) as held for sale. The business closed in the Company's third fiscal quarter. In March 2019 the company completed the sale of the assets and business of Madawaska doors. The Company's inventory, equipment and building were all included in the purchase price of \$300,000. Net losses for the year of (\$132,806) are included in the earnings (losses) from discontinued operations.

Hypernetics

In the fourth quarter of fiscal 2019, the Company began to actively market for sale its Hypernetics business, which manufactures avionic components for multiple applications. The business is available for sale in its present condition and it is anticipated that a sale will be completed in fiscal 2020. As a result, at March 31, 2019, the assets and associate liabilities have been classified and accounted for as held for sale on the consolidated statements of financial position and the operating results have been reported on the consolidated statements of comprehensive earnings as discontinued operations. The assets of Hypernetics are measured at the lower of their carrying amount less cost to sell. Summarized financial information for Hypernetics is shown below:

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2019 and March 31, 2018

(In Canadian dollars)

4. Operations held for sale - Cont'd.

Hypernetics - Cont'd.

	March 31, 2019	March 31, 2018
	\$	\$
Assets held for sale		
Accounts receivable	618,901	469,725
Unbilled revenue	604,844	-
Inventory	562,770	1,034,422
Equipment	157,687	126,687
Assets of component held for sale	<u>1,944,202</u>	<u>1,630,834</u>
Liabilities held for sale		
Accounts payable and accrued	<u>305,593</u>	<u>311,877</u>
Deferred tax asset	<u>2,207,830</u>	-
Net assets held for sale	<u>3,846,439</u>	<u>1,318,957</u>
Revenues	2019	2018
	\$	\$
Hypernetics	4,701,547	4,131,208
Arnprior Fire Trucks Corp	-	291,903
9366920 Canada Inc dba Madawaska Doors	594,975	598,309
	<u>5,296,522</u>	<u>5,021,420</u>
(Gain) loss on sale of operations held for sale		
Hypernetics	(1,984,677)	(1,547,863)
Arnprior Fire Trucks Corp	-	(542,562)
9366920 Canada Inc dba Madawaska Doors	132,806	424,347
	<u>(1,851,871)</u>	<u>(1,666,078)</u>
Deferred income tax recovery	<u>(2,207,830)</u>	-
Net gain on operations held for sale	<u>(4,059,701)</u>	<u>(1,666,078)</u>

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2019 and March 31, 2018

(In Canadian dollars)

5. Inventories

	2019	2018
	\$	\$
Raw materials	619,598	915,389
Work in process	417,832	698,496
Finished goods	-	131,304
	<u>1,037,430</u>	<u>1,745,189</u>

The cost of inventories recognized as an expense during the year was \$13,185,305 (\$10,270,402 in 2018). The total carrying value of inventory as at March 31, 2019, was pledged as security through general security agreements under bank lines of credit and related party liabilities (see note 17).

The Company wrote down its inventories by \$23,024 in fiscal 2019 (\$1,950 in 2018) to reflect where the carrying amount exceeded net realizable value. The Company had write ups in the year totaling \$998, (\$66,652 in 2018).

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2019 and March 31, 2018

(In Canadian dollars)

6. Long-term debt

	2019	2018
	\$	\$
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
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
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
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
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
Non-revolving loan payable in monthly blended installments of principal and interest, \$8,061, at a rate of 4.728%, secured by general security agreement, maturing March 2022.	430,000	-
Non-revolving loan payable (\$453,517 USD) in monthly blended installments of principal and interest, \$8,714 USD, at a rate of 5.746%, secured by general security agreement, maturing March 2022.	606,035	-
Deferred financing fees	(102,876)	-
	933,160	1,122,403
Current portion	(169,942)	(255,098)
	763,218	867,305

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

	\$
2020	169,942
2021	195,068
2022	671,026
2023	-
2024	-
	<u>1,036,036</u>

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2019 and March 31, 2018

(In Canadian dollars)

7. Obligation under capital lease

	2019	2018
	\$	\$
Capital lease payable in monthly installments of \$639, bearing interest at 2.49% per annum, maturing October 2019	4,435	11,890
Capital lease payable in monthly installments of \$1,205, bearing interest at 5.994% per annum, maturing January 2020	-	24,138
Capital lease payable in monthly installments of \$2,959 USD, bearing interest at 7.0 % per annum, maturing June 2021	98,529	132,765
Capital lease payable in monthly installments of \$1,254, bearing interest at 8.67 % per annum, maturing May 2022	38,803	-
Capital lease payable in monthly installments of \$4,644 USD bearing interest at 5.489 % per annum, maturing May 2023.	276,798	-
Capital lease payable in monthly installments of \$1,222, bearing interest at 4.968% per annum, maturing May 2021.	26,611	-
Capital lease payable in monthly installments of \$2,767, USD, bearing interest at 5.79% per annum, maturing July 2023	172,541	-
Capital lease payable in monthly installments of \$6,899 USD, bearing interest at 4.50% per annum, maturing October 2021	269,348	352,684
Capital lease payable in monthly installments of \$2,158, bearing interest at 5.094% per annum, maturing January 2020	-	43,458
	887,065	564,935
Current portion	(273,847)	(178,375)
	613,218	386,560

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

	\$
2020	311,066
2021	306,631
2022	212,728
2023	121,348
2024	27,202
Net minimum lease payments	<u>978,975</u>

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2019 and March 31, 2018

(In Canadian dollars)

8. Government assistance

The Company's Summit Aerospace USA Inc. division accepted a loan of \$720,000 USD (\$962,136 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 is secured by the related land and building.

The Company records the government loan at its estimated fair value at the date in which the payments are recorded. The estimated fair value of the loan payable is determined by discounting future cash flows associated with the loan at a discount rate which represents the estimated borrowing rate to the Company. The difference between the face value of the loan and the estimated fair value is deemed to be government assistance. The loan payable is accreted to the face value over the term of the loan and is recognized as accretion expense.

	Loan present value	Deferred Government Assistance	Repayable government assistance
	\$	\$	\$
Opening Balance	619,951	105,710	725,661
Loan adjustment for exchange	22,929	3,466	26,395
Repayments	(62,335)		(62,335)
Accretion	16,332	(16,332)	-
March 31, 2019	596,877	92,844	689,721
Current Portion	(47,500)	(15,900)	(63,400)
Balance	549,377	76,944	626,321

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

	\$
2020	63,400
2021	64,294
2022	65,259
2023	66,238
2024	67,231
2025 and thereafter	363,300
Net loan re-payments	689,721

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2019 and March 31, 2018

(In Canadian dollars)

9. Property, plant and equipment

	Factory equipment	Computer equipment	Furniture	Vehicles	Lease improvements	Building	Land	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Cost, balance								
March 31, 2017	7,564,242	1,059,094	202,977	410,634	2,171,079	1,784,553	275,431	13,468,010
Additions	191,211	3,597	-	14,587	69,890	-	-	279,285
Disposals	(18,884)	-	(664)	(5,000)	-	-	-	(24,548)
March 31, 2018	7,736,569	1,062,691	202,313	420,221	2,240,969	1,784,553	275,431	13,722,747
Additions	1,013,403	4,208	-	17,017	288,314	-	-	1,322,942
Assets classified as								
held for sale	(157,686)	-	-	-	-	-	-	(157,686)
Disposals	(149,649)	-	-	-	-	(47,219)	(40,000)	(236,868)
March 31, 2019	8,442,636	1,066,899	202,313	437,238	2,529,283	1,737,334	235,431	14,651,134
Accumulated depreciation, balance								
March 31, 2017	(5,196,371)	(1,033,890)	(198,454)	(338,384)	(1,115,922)	(458,540)	-	(8,341,561)
Depreciation	(554,261)	(11,218)	(1,060)	(38,943)	(206,223)	(101,955)	-	(913,660)
March 31, 2018	(5,750,632)	(1,045,108)	(199,514)	(377,327)	(1,322,145)	(560,495)	-	(9,255,221)
Depreciation	(588,578)	(11,460)	(883)	(23,617)	(220,045)	(101,469)	-	(946,052)
March 31, 2019	(6,339,210)	(1,056,568)	(200,397)	(400,944)	(1,542,190)	(661,964)	-	(10,201,273)
Carrying amount,								
March 31, 2018	1,985,937	17,583	2,799	42,894	918,824	1,224,058	275,431	4,467,526
March 31, 2019	2,103,426	10,331	1,916	36,294	987,093	1,075,370	235,431	4,449,861

Included in factory equipment are items under capital leases with a cost of \$1,244,478 and accumulated amortization of \$181,925 (2018 – cost of \$646,708 and accumulated amortization of \$81,292). Included in vehicles are items under capital lease with a cost of \$34,851 and accumulated amortization of \$34,851 (2018 – cost of \$34,851 and accumulated amortization of \$34,851). In fiscal 2018, items under capital lease with a cost of \$62,778 and accumulated amortization of \$20,926 were included in lease improvements.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2019 and March 31, 2018

(In Canadian dollars)

10. Intangibles

The intangible asset balance consists primarily of a customer relationship amount.

	\$
Cost, balance	
March 31, 2017	1,505,680
Additions	<u>8,620</u>
March 31, 2018	1,514,300
Additions	<u>4,926</u>
March 31, 2019	<u>1,519,226</u>
Accumulated depreciation, balance	
March 31, 2017	(849,967)
Depreciation	<u>(137,021)</u>
March 31, 2018	(986,988)
Depreciation	<u>(137,109)</u>
March 31, 2019	<u>(1,124,097)</u>
Carrying amount,	
March 31, 2018	527,312
March 31, 2019	<u>395,129</u>

11. Due to related parties

	2019	2018
	\$	\$
Due to senior officers and directors	4,083,141	4,309,565
Dividends payable	60,000	60,000
Due to Targa Group Inc., convertible debentures	247,672	247,672
Due to Tidal Quality Management Inc.	824,209	762,073
Due to Targa Group Inc., line of credit	449,763	532,763
Due to Targa Group Inc., demand loan interest	201,393	201,393
	<u>5,866,178</u>	6,113,466
Less: current portion	<u>(50,000)</u>	(356,000)
	<u>5,816,178</u>	5,757,466

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

As at March 31, 2019, a balance of \$4,083,141 (\$2,847,507 principal and \$1,235,634 interest) (\$4,273,565 (\$3,037,931 principal and \$1,235,634 interest) in 2018) remained owing to senior officers of the Company. As at March 31, 2019, a balance of \$NIL (\$36,000 in 2018) remained owing to a director of the Company for additional consulting services. The parties agreed to discontinue interest payments accruing on balances as of April 1, 2016. During the year payments in the amount of \$190,423 were repaid to senior officers. The balance of amount of \$4,083,139 is classified as long-term as the parties have postponed and subordinated their loans while certain facilities remain outstanding.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2019 and March 31, 2018

(In Canadian dollars)

11. Due to related parties - Cont'd.

On July 14, 2011, the board of directors of the Company declared a cash dividend of \$10.91405 per Class A preferred share (\$200,000 in the aggregate) payable on July 22, 2011, to the holders of record at the close of business on July 18, 2011. The Class A preferred shares are held by related parties and are entitled to annual cumulative dividends of 8% on the \$1,000 redemption amount of the Class A preferred share. An amount of \$60,000 (\$60,000 in 2018) of the dividend remains outstanding as at March 31, 2019. The balance is classified as long-term as the related party has agreed not to demand payment before August 2020.

As at March 31, 2019, interest in the amount of \$247,672 (\$247,672 in 2018) on a loan from Targa remains outstanding as of March 31, 2019. The related party has agreed not to demand payment before August 2020 and, accordingly, the amount is classified as long-term.

As at March 31, 2019, a balance of \$269,762 (\$207,626 in March 31, 2018) remains outstanding on a loan from Tidal, a company controlled by Targa. 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%. The related party has agreed not to demand payment before August 2020 and, accordingly, the amount is classified as long-term.

On May 31, 2017, Tidal refinanced its approximately \$345,000 mortgage on one of its properties, increasing the mortgage to \$900,000. Plaintree 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. Until March 31, 2019 the related party loan incurred interest at a rate of 14% per annum. The balance is classified as long-term as the related party has agreed not to demand payment before August 2020.

The Company has a revolving line of credit of up to \$1,000,000 with Targa. Under the loan agreements, all amounts advanced to the Company are payable on demand and bear interest at bank prime plus 2%. The Targa Credit Line is secured by a security interest granted over the assets of the Company. As at March 31, 2019, \$207,165 (\$290,165 in 2018) remained outstanding on the line of credit with accumulated interest of \$242,598 (\$242,598 in 2018) for a balance of \$449,763 (\$532,763 in 2018). Targa has agreed that it will not demand repayment before August 2020 and, accordingly, the amounts are classified as long-term.

Accumulated interest in the amount of \$201,393 (\$201,393 in 2018), on a prior year demand loan from Targa remains outstanding as of March 31, 2019. The party has agreed not to demand repayment before August 2020 and, accordingly, the amount is classified as long-term.

12. Trade and other payables

Trade and other payables are comprised of the following:

	\$	\$
Accounts payable	1,132,653	1,581,704
Accrued liabilities	139,737	323,154
Salaries and benefits payable	368,895	533,360
	<u>1,641,285</u>	<u>2,438,218</u>

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2019 and March 31, 2018

(In Canadian dollars)

13. Share capital

Authorized, unlimited number

Common shares

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; liquidatic preference of the redemption value plus cumulative dividends (when and if declared) to common shares; non-voting. As at March 31, 2019, the accrued and unpaid dividends on Class A preferred shares were \$15,326,000 (\$13,860,000 in 2018)

Issued

Common shares

Class A preferred shares

12,925,253

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, 2019 or March 31, 2018.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2019 and March 31, 2018

(In Canadian dollars)

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, 2019 and 2018, diluted earnings per share equals basic earnings per share due to the anti-dilutive effect of options and convertible instruments.

	2019	2018
	\$	\$
Net profit on continuing and held for sale operations	3,808,027	2,547,514
Cumulative dividends on preferred shares - per annum	(1,466,000)	(1,466,000)
Net profit (loss) attributable to common shares (basic and diluted)	2,342,027	1,081,514
Basic and diluted weighted average shares outstanding	12,925,253	12,925,253
Basic and diluted earnings (loss) per share from continuing and held for sale operations	0.18	0.08
Net (loss) profit on continuing operations	(251,674)	881,436
Cumulative dividends on preferred shares - per annum	(1,466,000)	(1,466,000)
Net profit (loss) attributable to common shares (basic and diluted)	(1,717,674)	(584,564)
Basic and diluted weighted average shares outstanding	12,925,253	12,925,253
Basic and diluted earnings (loss) per share from continuing operations	(0.13)	(0.05)

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2019 and March 31, 2018

(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 product, and the specialty structural products. The Company determines the geographical location of revenue based on the location of its customers. Of the total balance of \$4,449,861 in property, plant and equipment, \$1,980,782 is located in Canada and \$2,469,079 in the United States. All of the Company's intangible assets are primarily located in Canada.

Revenue by division

	2019	2018
	\$	\$
Electronics	3,251,348	2,082,598
Specialty Structures	13,751,172	12,193,566
	17,002,520	14,276,164

Revenue by geographical location

	2019	2018
Canada	8,070,057	6,671,879
United States	3,555,512	2,799,577
Spain	2,882,004	444,798
Chile	2,484,381	3,421,756
Argentina	-	938,154
Other	10,566	-
	17,002,520	14,276,164

Net (loss) earnings before taxes by division

	2019	2018
- Continuing operations		
Electronics	(519,408)	(1,081,332)
Specialty Structures	399,552	1,962,768
	(119,856)	881,436

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

	2019	2018
Number of customers	4	1
% of total revenue	10%, 13%, 16%, 17%	16%

Assets by division

	2019	2018
- Continuing operations		
Electronics	5,771,721	6,053,336
Specialty Structures	6,243,099	6,131,186

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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 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:

	2019	2018
	\$	\$
Accounting depreciation in excess of tax	321,000	505,000
Research and development expenses not deducted for tax	7,968,000	19,116,000
Losses available to offset future income taxes	3,395,000	6,279,000
Accruals	3,157,000	-
Other	192,000	-
	15,033,000	25,900,000

The effect of temporary differences and loss carryforwards that give rise to significant portions of the deferred tax asset, which has been recognized during the year ended March 31, 2019 are as follows:

	2018	Recognized in Profit or Loss	2019
	\$		\$
Deferred Tax Assets			
Losses Available to offset future income taxes	-	217,000	217,000
Accruals	-	64,000	64,000
Deferred tax liabilities			
Accounting depreciation in excess of tax	-	(410,000)	(410,000)
	-		-
Net Deferred taxes per financial statements	-	(129,000)	(129,000)

In addition to the deferred tax expenses included in the profit and loss statement noted above, there is also a deferred tax recovery of \$2,207,830 (2018 - \$0) included in discontinued operations on the financial statements (See Note 4).

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 \$16,799,000 (2018 - \$19,116,450) for Canadian federal and provincial tax purposes. These are available without expiry to reduce future years' taxable income.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2019 and March 31, 2018

(In Canadian dollars)

16. Income taxes - Cont'd.

As at March 31, 2019, the Company has approximately \$617,000 (2018 - \$617,000) of investment tax credits, relating primarily to research and development, available to reduce future year's Canadian federal income taxes. These potential benefits expire as follows:

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

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

	2019	2018
	\$	\$
Net loss before income taxes of continuing operations	(119,855)	881,436
Canadian statutory rate	25.0%	26.5%
Expected income tax benefit	(29,964)	233,581
Changes in unrealized deferred tax assets	22,503	(148,227)
True up on Current Taxes	1,933	-
True Up on Future Taxes	99,130	24,737
Permanent differences	7,842	4,948
Foreign Rate Differential	(5,394)	(62,832)
Other	35,768	(52,207)
Income tax expense	<u>131,818</u>	-

The Company has losses available to reduce future years' Canadian federal taxable income totaling approximately \$2,910,000. These potential benefits expire as follows:

	\$
2035	-
2036	626,000
2037	1,352,000
2038	409,000
2039	523,000
	<u>2,910,000</u>

The Company has U.S. losses of approximately \$1,480,000, which begin to expire in 2032.

Plaintree Systems Inc.

Notes to the consolidated financial statements

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(In Canadian dollars)

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.

Commitments

The Company leases office space under an operating lease that expires in June 2020 from Tidal, a related party. Future minimum payments due in each of the next five years, and in aggregate, under the operating leases are as follows:

2020	\$105,693
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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 an allowance of \$36,960 included in liabilities.

Bank facilities

The Company has in place a credit facility of up to \$3,000,000 through its bank based on acceptable trade receivables and inventory. The total amount available to the Company as at March 31, 2019 was \$2,664,697 of which \$988,313 was in use and a letter of credit in the amount of US\$256,200 (\$342,360 CAD) leaving \$1,292,599 available. The Company through its bank has in place a credit facility of up to \$2,000,000 for the issuance of standby letters of credit and/or letters of guarantee insured by Export Development Corporation ("EDC") Performance Security Guarantee. The Company has in place a credit facility of up to \$1,000,000 to assist with financing of new and used equipment. Subsequent to year-end, \$488,597 (US\$364,000) was used. During fiscal 2019 the Company incurred professional fees of \$164,329 related to the modification of its banking relationship and related short-term borrowings.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2019 and March 31, 2018

(In Canadian dollars)

17. Guarantees, commitments and contingencies - Cont'd.

Contractual obligations

The following table provides a summary of the Company's obligations outstanding as at March 31, 2019:

Payments due by period

	Total	Current	2021	2022	2023	2024	Thereafter
	\$	\$	\$	\$	\$	\$	\$
Cash deficit	1,649,071	1,649,071					
Accounts payable and accrued liabilities	1,641,285	1,641,285	-	-	-	-	-
Due to related parties - convertible debentures	247,672	-	247,672	-	-	-	-
Due to related parties - other	4,967,350	50,000	4,917,350	-	-	-	-
Due to related parties - line of credit	449,763	-	449,763	-	-	-	-
Due to related parties - demand loan	201,393	-	201,393	-	-	-	-
Due to related parties - lease payments	105,693	105,693	-	-	-	-	-
Lease commitments	978,975	311,066	306,631	212,728	121,348	27,202	-
Long-term debt	1,726,166	233,286	259,362	736,284	66,238	67,231	363,765
	<u>11,967,368</u>	<u>3,990,401</u>	<u>6,382,171</u>	<u>949,012</u>	<u>187,586</u>	<u>94,433</u>	<u>363,765</u>

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.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2019 and March 31, 2018

(In Canadian dollars)

18. Financial instruments - Cont'd.

Fair value hierarchy - Cont'd.

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

Accounts receivable

Accounts receivable consists primarily of trade receivables. The Company's credit risk arises from the possibility that a counterparty which owes the Company money is unable or unwilling to meet its obligations in accordance with the terms and conditions in the contracts with the Company, which would result in a financial loss for the Company.

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

Maximum credit risk is limited to the balance in cash, trade receivables and unbilled revenue totaling \$6,016,639 (\$5,191,592 in 2018). As at March 31, 2019, trade receivables were comprised of two companies totaling 20% and 42% respectively (two companies totaling 12% and 32% respectively in 2017). As at March 31, 2019, the Company's ageing of accounts receivable was approximately 89% (74% in 2018) under sixty days, 6% (1% in 2018); over 60 - 90 days and 5% (25% in March 31, 2018) over 90 days and the allowance for doubtful accounts was \$2,000 (32,343 in 2018).

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the fair value of recognized assets and liabilities or future cash flows or the Company's results of operations.

Interest risk

The Company is financed through loans from related parties and bank loans, which bear interest at rates tied to the Canadian bank prime rate. The Company's exposure to interest rate risk relates primarily to variable interest rates on the Company's credit facilities as disclosed in note 17.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2019 and March 31, 2018

(In Canadian dollars)

18. Financial instruments - Cont'd.

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, 2019, the Company had a foreign exchange loss of \$27,541 (gain of \$17,112 in 2018). 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 \$12,368 and \$80,973 for the fiscal years ended March 31, 2019 and 2018, respectively.

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

	2019	2018
	\$	\$
Cash	456,628	527,702
Trade receivables	1,338,984	981,922
Unbilled revenue	297,217	11,202
Trade and other payables	(103,535)	(719,312)
Long-term debt	(2,112,972)	(1,846,710)
	<u>(123,678)</u>	<u>(1,045,196)</u>

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, 2019, 77% 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.

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.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2019 and March 31, 2018

(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 is the Company CEO. The CEO controls approximately 34.4% of the outstanding shares of the Company. Compensation provided to key management is as follows:

	2019	2018
	\$	\$
Consulting fees	204,000	50,000
Health benefits	13,446	12,592
	217,446	62,592

If terminated for other than just cause, the chief 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, 2019, the Company incurred interest expense of \$417,219 (\$323,683 in 2018) of which \$148,956 (104,577 in 2018) is interest on related party balances as described in Note 12.

Rents paid to a related party during the year ended March 31, 2019 totaled \$117,114 (2018 - \$117,693).

The senior officers have agreed to discontinue interest payments on their consulting agreements accruing on balances as of April 1, 2016. On March 31, 2019 one of the Company's senior officers agreed to defer payment of accumulated and unpaid consulting fees and salaries payable to August 2020. During fiscal 2019, a portion of these fees, loans and salaries, amounting to \$190,423 (\$102,100 in 2018), was paid to the senior officers. As at March 31, 2019, these outstanding fees and salaries to senior officers of the Company, who are also majority shareholders of Targa, amounted to \$2,847,505 (\$3,037,931 in 2018) plus interest charges of \$1,235,634 (\$1,235,634 in 2018) for a total payable of \$4,083,139 (\$4,273,565 in 2018). 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.

Plaintree Systems Inc.

Notes to the consolidated financial statements

March 31, 2019 and March 31, 2018

(In Canadian dollars)

20. Revenue

The Company derives its revenue principally from the provision of customized electronics and specialty structure services under fixed price contracts. Revenue is generally recorded as the work progresses using the percentage of completion method. The contract period for the electronics contracts is generally short with the performance obligation provided over time and billed on completion and delivery. The contract period for the specialty structures contracts can extend beyond a year with progress billings incorporated into the terms of the customer contract. Payment is generally due on issuance of the invoice. Deferred revenue is generally comprised of progress billings related to the specialty structures contracts.

The following table presents the changes in deferred revenue:

	\$
Opening balance, March 31, 2018	1,472,109
Revenue recognized	(1,451,672)
Amounts invoiced and deferred ast March 31, 2019	489,539
Balance, March 31, 2019	509,976

21. Personnel expenses

The following table presents the personnel expenses of the Company:

	2019	2018
	\$	\$
Salaries including bonuses	4,568,875	3,672,616
Benefits	446,792	375,774
Commissions	79,926	61,404
	5,095,593	4,109,794

22. Depreciation

The following table presents the depreciation expenses by function:

	2019	2018
	\$	\$
Cost of revenue	792,741	743,645
Selling and marketing	18,205	19,022
Research and development	25,995	26,513
General and administrative	137,984	138,367
	974,925	927,547