MADAWASKA DOORS

SPOTTON

HYPERNETICS

SUMMIT AEROSPACE

ARNPRIOR FIRE TRUCKS

TRIODETIC

PLAINTREE SYSTEMS INC.

Annual Report Fiscal 2016

Plaintree Systems Inc.
March 31, 2016 and March 31, 2015

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Deloitte.

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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, 2016 and March 31, 2015, and the consolidated statements of comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Plaintree Systems Inc. as at March 31, 2016 and March 31, 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2(d) in the consolidated financial statements which indicates that the Company incurred a net loss of $2,258,584 during the year ended March 31, 2016, and, as of that date, the Company's current liabilities exceeded its total assets by $376,485. These conditions, along with other matters as set forth in Note 2(d), indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants

July 29, 2016

Plaintree Systems Inc.

Consolidated statements of financial position
as at March 31, 2016 and March 31, 2015
(In Canadian dollars)

	2016	2015
	$	$
Assets		
Current assets		
Cash	**-**	57,757
Trade receivables and other receivables	**2,711,810**	4,000,471
Unbilled revenue	**364,981**	580,374
Inventories (Note 6)	**2,232,395**	2,191,417
Prepaid expenses and other receivables	**91,103**	199,379
Note receivable (Note 7)	**-**	357,207
	5,400,289	7,386,605
Property, plant and equipment (Note 11)	**5,888,195**	6,280,844
Intangible assets (Note 12)	**791,978**	925,752
	12,080,462	14,593,201
Liabilities		
Current liabilities		
Bank indebtedness	**4,576**	-
Trade and other payables (Note 14)	**2,339,216**	2,286,597
Deferred revenue	**625,693**	308,146
Current portion of long-term debt - bank (Note 8)	**2,701,665**	3,517,984
Current portion of deferred government assistance (Note 10)	**19,500**	19,277
Current portion of obligations under lease capital (Note 9)	**48,024**	46,620
Current portion of government assistance (Note 10)	**38,100**	40,498
	5,776,774	6,219,122
Deferred government assistance (Note 10)	**123,140**	139,618
Obligations under lease capital (Note 9)	**115,237**	164,084
Repayable government assistance - other (Note 10)	**668,625**	685,921
Due to related parties (Note 13)	**5,871,546**	5,600,732
	12,555,322	12,809,477
Shareholders' equity		
Issued capital	**2**	2
Contributed surplus	**2,090,750**	2,090,750
Deficit	**(2,565,612)**	(307,028)
	(474,860)	1,783,724
	12,080,462	14,593,201

Approved by the Board

"David Watson"

"Girvan Patterson"

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

Plaintree Systems Inc.
Consolidated statements of comprehensive loss
years ended March 31, 2016 and March 31, 2015
(In Canadian dollars)

	2016	2015
	$	$
Revenue	**15,746,175**	19,318,783
Cost of sales	**13,938,956**	15,816,555
Gross margin	**1,807,219**	3,502,228
Operating expenses		
Research and development	**1,308,124**	1,451,386
Finance and administration	**1,157,672**	1,167,432
Sales and marketing	**1,097,810**	931,209
Bad debt	**-**	16,521
Loss (gain) on disposal of assets	**10,645**	(3,072)
Interest expense	**425,535**	497,921
Loss (gain) on foreign exchange	**66,017**	(60,218)
	4,065,803	4,001,179
Net loss before other income	**(2,258,584)**	(498,951)
Other income		
Forgiveness of debt owing to related party	**-**	(97,600)
Net loss and comprehensive loss	**(2,258,584)**	(401,351)
Basic and diluted loss per common share (Note 16)	**(0.29)**	(0.14)
Weighted average common shares outstanding	**12,925,253**	12,925,253

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

Plaintree Systems Inc.

Consolidated statements of cash flows
years ended March 31, 2016 and March 31, 2015
(In Canadian dollars)

	2016	2015
	$	$
Operating activities		
Net loss	**(2,258,584)**	(401,351)
Add (deduct) items not affecting cash		
Write-down of inventories	**16,985**	37,084
Forgiveness of debt owing to related party	**-**	(97,600)
Depreciation of intangible assets	**138,496**	136,631
Depreciation of property, plant and equipment	**934,262**	868,173
Loss (gain) on the sale of property, plant and equipment	**10,645**	(3,072)
Changes in non-cash operating working capital items		
Trade and other receivables	**1,288,661**	(1,944,644)
Unbilled revenue	**215,393**	1,314,934
Inventories	**(41,593)**	(519,721)
Prepaid expenses and other receivables	**108,276**	(7,089)
Trade and other payables	**52,619**	519,263
Deferred revenue	**317,547**	(557,921)
Interest paid on related party debt	**172,283**	257,890
Cash provided by (used in) operations	**954,990**	(397,423)
Investing activities		
Acquisition of Spotton Corporation, net of cash acquired	**-**	118,123
Acquisition of Madawaska Doors Inc.	**(280,000)**	-
Repayment of notes receivable	**357,207**	44,651
Payments to acquire intangible assets	**(4,722)**	(4,447)
Payments to acquire property, plant and equipment	**(348,291)**	(657,578)
Proceeds from disposal of property, plant and equipment	**59,663**	35,607
Cash used in investing activities	**(216,143)**	(463,644)
Financing activities		
Proceeds from long-term debt	**100,000**	213,536
Proceeds from repayable government assistance	**-**	911,952
Repayment of government assistance	**(35,948)**	(26,638)
Repayment of long-term debt	**(916,319)**	(524,009)
Repayment of capital lease obligations	**(47,443)**	(2,833)
Increase in related party borrowings	**98,530**	371,591
Cash (used in) provided by financing activities	**(801,180)**	943,599
Net cash (outflow) inflow	**(62,333)**	82,533
Cash (bank indebtedness), beginning of year	**57,757**	(24,776)
Bank indebtedness (cash), end of year	**(4,576)**	57,757

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

Plaintree Systems Inc.

Consolidated statements of changes in equity
years ended March 31, 2016 and March 31, 2015
(In Canadian dollars)

	Number of common shares	Issued capital	Numer of Class A preferred shares (1)	Issued capital	Contributed surplus	Equity (deficit)	Shareholders' equity (deficiency)
		$		$	$	$	$
Balances, March 31, 2014	12,925,253	1	18,325	1	-	94,323	94,325
Forgiveness of debt	-	-	-	-	2,090,750	-	2,090,750
Net loss and comprehensive loss	-	-	-	-	-	(401,351)	(401,351)
Balances, March 31, 2015	12,925,253	1	18,325	1	2,090,750	(307,028)	1,783,724
Net loss and comprehensive loss	-	-	-	-	-	(2,258,584)	(2,258,584)
Balances, March 31, 2016	**12,925,253**	**1**	**18,325**	**1**	**2,090,750**	**(2,565,612)**	**(474,860)**

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

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

1. Description of the business

Plaintree Systems Inc. ("Plaintree" or the "Company") was incorporated in Canada under the Canada Business Corporation Act and is publicly traded on the Canadian Securities Exchange ("CSE") under "NPT". The Company operates an Electronics division (the Hypernetics business, the free space optics business and Summit Aerospace USA Inc. business) and a Specialty Structures division (the Triodetic business), Arnprior Fire Trucks Corp., Spotton Corp. and 9366920 Canada Inc. (operating as Madawaska Doors). Plaintree is an exceptionally diversified company with proprietary technologies and manufacturing capabilities in structural design, aerospace and telecommunications. The Hypernetics business manufactures avionic components for various applications including aircraft antiskid braking, aircraft instrument indicators, solenoids and permanent magnet alternators. The Triodetic business is a design/build manufacturer of steel, aluminum and stainless steel specialty structures such as commercial domes, free form structures, barrel vaults, space frames and industrial dome coverings. On May 23, 2013, the Company completed the acquisition of a 16,300 sq. ft. manufacturing facility in Pocono Summit, PA, where they will continue the operation of Summit, a wholly-owned subsidiary of Plaintree, which specializes in the high-end machining of super-alloys for the aircraft and helicopter markets. On April 1, 2014, Plaintree acquired all the share capital of Spotton Corporation ("Spotton"). Spotton's business involves the design and manufacture of high-end custom hydraulic and pneumatic valves and cylinders for the industrial and oil and gas markets. On July 20, 2015, the Company acquired the assets and activities of Madawaska Doors Inc., through its wholly-owned subsidiary, 9366920 Canada Inc. The business of Madawaska Doors involves the manufacturing and selling of high quality 100% natural solid wood custom doors and related parts and materials. The address of the Company's registered office and principal place of business is 10 Didak Drive, Arnprior, Ontario.

2. Basis of presentation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and were approved for issue by the Board of Directors on July 27, 2016.

(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 Inc. (Canadian company), Spotton Corp. (Canadian company) and Madawaska Doors Inc., through its wholly-owned subsidiary, 9366920 Canada Inc. Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries align with the policies adopted by the Company. All inter-company transactions have been eliminated.

(In Canadian dollars)

2. Basis of presentation (continued)

(d) Going concern

These consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As at March 31, 2016, the Company had an accumulated deficit of $2,565,612 and, for the period then ended, the Company incurred a total comprehensive loss of $2,258,584. As at March 31, 2016, the Company had negative working capital of $376,485 and no cash on hand. The Company has in place a credit facility of up to $2,000,000 through its bank based on acceptable trade receivables and inventory (amount outstanding as at March 31, 2016, $1,135,572 which includes a letter of credit in the amount of $353,162 USD). The Company's analysis of forecasted sales and expenses indicate improvement in both sales and cash flow as a result of contracts bid and/or signed and their expected margins on these projects. As a result, the Company believes that it has sufficient cash resources to meet its obligations. However, should (i) the Company's bank credit facility fail to be available or fail to have sufficient availability to meet the Company's cash requirements; (ii) forecasts fall short of expectations in one or more of the Company's divisions; and/or (iii) another unprofitable event occurs such as the installation overruns in Saskatoon contract that have negatively affected the Company for the past 18 months, which is unanticipated, this will impact the Company's ability to generate sufficient cash to meet its requirements and this will impact its ability to continue as a going concern.

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

3. Significant accounting policies

The significant accounting policies include the following:

Inventories

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

Property, plant and equipment

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

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

3. Significant accounting policies (continued)

Intangible assets

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

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

The Company's policy is to review all long-lived assets for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company will record an impairment of the asset if the recoverable amount, determined as the higher of an asset's fair value less costs to sell or the discounted future cash flows generated from use and eventual disposal of an asset, is less than its carrying value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the tax effects of any change in estimate accounted for on a prorated basis.

Revenue recognition

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

Revenue on fixed-price contracts is recognized based on the estimated percentage-of-completion of services rendered that reflects the extent of work accomplished. Management estimates the percentage-of-completion by reference to measures of performance that are reasonably determinable and are directly related to the activities critical to completion of the contract. The Company uses this method of revenue recognition as projected contract revenue and costs may reasonably be estimated based on the Company's business practices, methods and historical experience. This method requires estimates of costs and profits over the entire term of the contract. Management regularly reviews underlying estimates of project profitability; revisions to estimates are reflected in the 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. Extended warranty contracts are sold separately from the product and the associated revenue is recognized over the term of the agreement.

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.

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.

3. Significant accounting policies (continued)

Critical accounting estimates and judgements (continued)

Purchase price allocation

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

Impairment of trade receivables

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

Useful lives of property, plant and equipment and intangible assets

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

Functional currency

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

Estimation uncertainty

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

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.

3. Significant accounting policies (continued)

Critical accounting estimates and judgements (continued)

Income taxes

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

Earnings (loss) per share

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

Financial instruments

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

Available-for-sale

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

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

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

Loans and receivables

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

Other liabilities

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

3. Significant accounting policies (continued)

Financial instruments (continued)

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

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

(In Canadian dollars)

3. Significant accounting policies (continued)

New Standards effective April 2018 (continued)

IFRS 15: Revenue from contracts with customers

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

IFRS 16: Leases

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

4. Acquisition of Spotton Corp.

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

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

	$
Cash	118,243
Trade receivables	170,722
Other receivables	420,003
Inventories	415,032
Prepaid expenses	15,059
Property, plant and equipment	62,923
Trade accounts payable, accrued liabilities and other	(105,221)
	1,096,761
Less: Purchase price	(1,096,761)
Excess of net assets over purchase price	-

(In Canadian dollars)

5. Acquisition of Madawaska Doors

On July 20, 2015, the Company, through 9366920 Canada Inc., a wholly-owned subsidiary, acquired the assets of Madawaska Doors Inc., including a building located in Barry's Bay, Ontario, for a total purchase price of $280,000. The business of Madawaska Doors Inc. involves the manufacturing and selling of high quality, 100% natural solid wood custom doors and related parts and material. The Company intends to carry on the business of Madawaska Doors Inc. through its wholly-owned subsidiary.

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

6. Inventories

	2016	2015
	$	$
Raw materials	**1,182,239**	1,330,233
Work in process	**781,593**	697,297
Finished goods	**268,563**	163,887
	2,232,395	2,191,417

The cost of inventories recognized as an expense during the year was $13,869,887 (2015 - $15,208,258). The total carrying value of inventory as at March 31, 2016, was pledged as security through general security agreements under bank lines of credit and related party liabilities.

The Company wrote down its inventories by $16,985 in fiscal 2016 (2015 - $37,084) to reflect where the carrying amount exceeded net realizable value. The Company had write ups in the year totalling $65,113 (2015 - $122,260).

7. Note receivable

On March 28, 2012, the Company sold one of its two manufacturing buildings that were recorded as assets held-for-sale. The building sold for $470,000. The Company assumed a vendor take-back first mortgage of $446,509 for a three-year term. The note was paid in full in May 2015.

(In Canadian dollars)

8. Long-term debt

	2016	2015
	$	$
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	**763,708**	806,050
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	**266,360**	305,662
Term loan payable in monthly installments of $733, bearing interest at a rate of prime minus 0.65% per annum, secured by a mortgage on a property, maturing November 2016	**84,361**	91,305
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	**62,696**	71,927
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	**243,215**	281,437
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**	-
Demand non-revolving loan payable in monthly blended installments of principal and interest, at a rate of prime plus 1.5%, secured by a general security agreement, maturing ten years following full draw-down of the loan or June 2016	**125,213**	189,942
Demand non-revolving loan payable in monthly installments of US$36,957, interest at LIBOR plus 3% per annum, maturing September 2017	**813,325**	1,357,465
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	**184,109**	320,645
Term non-revolving loan payable in monthly installments of $3,161, bearing interest at the rate of prime plus 1.25% per annum, maturing March 2025	**58,678**	93,551
	2,701,665	3,517,984
Current portion	**(2,701,665)**	(3,517,984)
	-	-

(In Canadian dollars)

8. Long-term debt (continued)

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

	$
2017	1,008,210
2018	512,162
2019	169,523
2020	169,523
2021	169,523
Thereafter	672,724
	2,701,665

As of March 31, 2016, the Company was in breach of the debt service coverage ratio and the debt ratio, which was required to be maintained at a minimum of 115% and 250% respectively. Debt service coverage ratio is determined by dividing earnings before interest, taxes, depreciation and amortization by the annual payments of principal and interest. Debt ratio is determined by dividing total debt over tangible net worth.

As a result of the covenant breach, the long-term debt has been reclassified to current. The bank has waived the covenant requirements to April 1, 2017, and has continued to provide funding under the terms of the facility.

9. Obligation under capital lease

	2016	2015
	$	$
Capital lease payable in monthly installments of $639, bearing interest at 2.49% per annum, maturing October 2019.	**26,256**	33,176
Capital lease payable in monthly installments of $1,205, bearing interest at 5.094% per annum, maturing January 2020.	**48,599**	62,778
Capital lease payable in monthly installments of $2,158, bearing interest at 5.094% per annum, maturing July 2020.	**88,406**	114,750
	163,261	210,704
Current portion	**48,024**	46,620
	115,237	164,084

(In Canadian dollars)

9. Obligation under capital lease (continued)

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

	$
2017	48,022
2018	48,022
2019	48,022
2020	35,139
Net minimum lease payments	179,205
Less: imputed interest	15,944
	163,261

10. Government assistance

The Company's Summit Aerospace USA Inc. division accepted a loan of $720,000 USD ($943,992 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	726,419	158,895	885,314
Loan adjustment for exchange	8,632	4,026	12,658
Repayments	(48,607)	-	(48,607)
Accretion	20,281	(20,281)	-
Total as at March 31, 2016	706,725	142,640	849,365
Current portion	(38,100)	(19,500)	(57,600)
Long-term portion	668,625	123,140	791,765

(In Canadian dollars)

11. Property, plant and equipment

	Factory equipment	Computer equipment	Furniture	Vehicles	Lease improvements	Building	Land	Total
	$	$	$	$	$	$	$	$
Cost, balance								
March 31, 2014	6,208,231	952,497	197,069	237,194	1,824,116	1,768,823	285,431	11,473,361
Additions	802,836	114,100	7,013	143,512	360,962	-	-	1,428,423
Disposals	(32,535)	-	-	-	-	-	-	(32,535)
March 31, 2015	6,978,532	1,066,597	204,082	380,706	2,185,078	1,768,823	285,431	12,869,249
Additions	299,272	5,760	-	107,611	84,278	75,000	40,000	611,921
Disposals	(70,308)	-	-	-	-	-	-	(70,308)
March 31, 2016	**7,207,494**	**1,072,357**	**204,082**	**488,317**	**2,269,356**	**1,843,823**	**325,431**	**13,410,862**
Accumulated depreciation, balance								
March 31, 2014	(3,128,127)	(942,646)	(178,869)	(140,915)	(527,080)	(94,743)	-	(5,012,380)
Depreciation	(1,007,461)	(114,768)	(11,572)	(136,158)	(200,459)	(105,607)	-	(1,576,025)
March 31, 2015	(4,135,588)	(1,057,414)	(190,441)	(277,073)	(727,539)	(200,350)	-	(6,588,405)
Depreciation	(562,309)	(6,660)	(4,559)	(45,601)	(206,079)	(109,054)	-	(934,262)
March 31, 2016	**(4,697,897)**	**(1,064,074)**	**(195,000)**	**(322,674)**	**(933,618)**	**(309,404)**	**-**	**(7,522,667)**
Carrying amount,								
March 31, 2015	2,842,944	9,183	13,641	103,633	1,457,539	1,568,473	285,431	6,280,844
March 31, 2016	**2,509,597**	**8,283**	**9,082**	**165,643**	**1,335,738**	**1,534,419**	**325,431**	**5,888,195**

12. Intangibles

	Customer relationship	Non-competition agreement	Computer software	Total
	$	$	$	$
Cost, balance				
March 31, 2014	1,303,270	10,000	183,241	1,496,511
Additions	-	-	4,447	4,447
March 31, 2015	1,303,270	10,000	187,688	1,500,958
Additions	-	-	4,722	4,722
March 31, 2016	**1,303,270**	**10,000**	**192,410**	**1,505,680**
Accumulated depreciation, balance				
March 31, 2014	(260,654)	(3,078)	(174,843)	(438,575)
Depreciation	(130,327)	(1,538)	(4,766)	(136,631)
March 31, 2015	(390,981)	(4,616)	(179,609)	(575,206)
Depreciation	(130,327)	(1,539)	(6,630)	(138,496)
March 31, 2016	**(521,308)**	**(6,155)**	**(186,239)**	**(713,702)**
Carrying amount,				
March 31, 2015	912,289	5,384	8,079	925,752
March 31, 2016	**781,962**	**3,845**	**6,171**	**791,978**

(In Canadian dollars)

13. Due to related parties

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

As at March 31, 2016, a balance of $4,456,950 ($3,221,316 principal and $1,235,634 interest) (2015 - $4,044,280 - $2,955,786 principal and $1,088,494 interest) remained owing to senior officers of the Company. These amounts are classified as long-term as the parties have agreed not to demand repayment before August 2017.

On July 14, 2011, the board of directors of the Company declared a cash dividend of $10.91405 per Class A preferred share ($200,000 in the aggregate) payable on July 22, 2011, to the holders of record at the close of business on July 18, 2011. The Class A preferred shares are held by related parties and are entitled to annual cumulative dividends of 8% on the $1,000 redemption amount of the Class A preferred share. An amount of $60,000 (2015 - $60,000) of the dividend remains outstanding as at March 31, 2015. The balance is classified as long-term as the related party has agreed not to demand payment before August 2017.

As at March 31, 2016, a balance of $247,672 (2015 - $247,672) of the due to related parties is convertible into common shares of the Company at a rate of $0.0115 at the option of Targa. The balance is classified as long-term as the related party has agreed not to demand payment before August 2017.

Until March 31, 2003, the Company leased facilities from a company controlled by Targa. Lease arrears owing to this related party amounted to $174,974 (March 31, 2015 - $174,974). The Company accepted partial financing in the form of a note payable in the amount of $373,473 during fiscal 2014 from Tidal for a new facility in Pocono Summit. As at March 31, 2016 a balance of $325,109 remains outstanding. Loans totaling $420,003 owed to Spotton by Tidal have been consolidated into the net balance as of April 1, 2014, with the acquisition of Spotton Corp by the Company. The interest is at bank prime plus 2% and accrues on the principal balance for a balance of $182,889 as of March 31, 2016 (March 31, 2015 - $179,014). The party has agreed not to demand repayment of the total balance of $265,968 (March 31, 2015 - $279,094) before August 2017 and the amount is classified as long-term.

The Company has a demand loan of up to $1,800,000 and a revolving line of credit of up to $1,000,000 with Targa. Under the loan agreements, all amounts advanced to the Company are payable on demand and bear interest at bank prime plus 2%. The Targa Demand Loan is secured by a security interest granted over the assets of the Company. As at March 31, 2016, $Nil, (2015 - $Nil) remained outstanding on the demand loan with accumulated interest of $66,581 (2015 - $66,581). As at March 31, 2016, $396,965 (2015 - $546,965) remained outstanding on the line of credit with accumulated interest of $242,598 (2015 - $221,628) for a balance of $639,563 (2015 - $768,293). Targa has agreed that it will not demand repayment before August 2017 and, accordingly, the amounts are classified as long-term.

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

(In Canadian dollars)

14. Trade and other payables

Trade and other payables are comprised of the following:

	2016	2015
	$	$
Accounts payable	**1,571,212**	1,433,388
Accrued liabilities	**308,986**	347,808
Salaries and benefits payable	**459,018**	505,401
	2,339,216	2,286,597

15. 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 2016, the accrued and unpaid dividends on the Class A preferred shares were $10,928,000

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, 2016 or March 31, 2015.

(In Canadian dollars)

16. 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, 2016 and 2015, diluted earnings per share equals basic earnings per share due to the anti-dilutive effect of options and convertible instruments.

	2016	2015
	$	$
Net loss	**(2,258,584)**	(401,351)
Cumulative dividends on preferred shares - per annum	**(1,466,000)**	(1,466,000)
Net loss attributable to common shares (basic and diluted)	**(3,724,584)**	(1,867,351)
Basic and diluted weighted average shares outstanding	**12,925,253**	12,925,253
Basic and diluted loss per share	**(0.29)**	(0.14)

17. Business segment information

The Company's chief decision maker, the CEO, tracks the Company's operations as two business segments - the design, development, manufacture, marketing and support of electronic products, and the specialty structural products. From time to time, the Company provides management services primarily to related companies. The revenue and cost of sales related to these services are presented in the statement of comprehensive loss. No other expenses or assets are attributable to this segment. The Company determines the geographic location of revenue based on the location of its customers. Of the total balance of $5,888,195 in property, plant and equipment $3,054,558 is located in Canada and $2,833,637 in the United States. All of the Company's intangible assets are primarily located in Canada.

Revenue by division

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

Net (loss) income before taxes by division

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

(In Canadian dollars)

17. Business segment information (continued)

Revenue by geographical location

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

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

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

Assets by division

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

18. 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:

	2016	2015
	$	$
Accounting depreciation in excess of tax	**(193,000)**	1,628,000
Research and development expenses not deducted for tax	**5,952,000**	5,952,000
Losses available to offset future income taxes	**1,708,000**	825,000
Valuation allowance	**(7,467,000)**	(8,405,000)
	-	-

The Company has claimed less research and development expenses for income tax purposes than has been reflected in the financial statements. These unclaimed expenses total approximately $20,755,000 (2015 - $20,755,000) for Canadian federal and provincial tax purposes. These are available without expiry to reduce future years' taxable income.

(In Canadian dollars)

18. Income taxes (continued)

As at March 31, 2016, the Company has approximately $617,000 (2015 - $617,000) of investment tax credits, relating primarily to research and development, available to reduce future year's Canadian federal income taxes. These potential benefits expire as follows:

	$
2021	240,000
2022	344,000
2029	12,000
2030	16,000
2031	5,000
	617,000

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

	2016	2015
	$	$
Net loss before income taxes	**(2,258,584)**	(401,351)
Canadian statutory rate	**26.5%**	26.5%
Expected income tax benefit	**(598,525)**	(106,358)
Changes in unrealized deferred tax assets	**(941,500)**	156,761
True Up on Future Taxes	**1,590,000**	-
Permanent differences	**6,262**	3,887
Benefit of current loss and assets of subsidiary not recorded	**55,987**	33,233
Other	**(112,224)**	(87,523)
Income tax expense	**-**	-

The Company has losses available to reduce future years' Canadian federal taxable income totaling approximately $6,453,000. These potential benefits expire as follows:

	$
2031	318,000
2032	783,000
2033	545,000
2034	1,241,000
2035	1,492,000
2036	2,074,000
	6,453,000

The Company has U.S. losses of approximately $2,306,000, which begin to expire in 2033.

(In Canadian dollars)

19. Guarantees, commitments and contingencies

Guarantees

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

Commitments

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

	$
2017	105,693
2018	105,693
2019	105,693
2020	105,693
2021	105,693
Thereafter	343,570
	872,035

Product warranties

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

Contractual obligations

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

Payments due by period

	Total	Current	2018	2019	2020	2021	Thereafter
	$	$	$	$	$	$	$
Accounts payable and accrued liabilities	2,339,216	2,339,216	-	-	-	-	-
Due to related parties -							-
convertible debentures	247,672	-	247,672	-	-	-	-
Due to related parties -							-
other	4,782,918	-	4,782,918	-	-	-	-
Due to related parties -							-
line of credit	463,546	-	463,546	-	-	-	-
Due to related parties -							-
demand loan	377,410	-	377,410	-	-	-	-
Due to related parties - lease payments	872,035	105,693	105,693	105,693	105,693	105,693	343,570
Long-term debt	3,714,291	1,112,884	616,838	274,199	249,157	227,123	1,234,090
	12,797,088	3,557,793	6,594,077	379,892	354,850	332,816	1,577,660

20. 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, 2016, the Company was in a bank indebtedness position with banks of $(4,576), (2015 – positive cash position of $57,757). During the years ended March 31, 2016 and 2015, the Company did not hold any investments in asset-backed commercial paper.

Accounts receivable

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

20. 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 totalling $3,076,791 (2015 - $4,638,602). As at March 31, 2016, trade receivables were comprised of three companies totalling 11%, 15% and 14% respectively (2015 - 1 company totalling 24%). As at March 31, 2016, the Company's ageing of accounts receivable was approximately 86% (2015 - 52%) under sixty days, 4% (2015 - 9%); over 60 - 90 days and 10% (March 31, 2015 - 39%) over 90 days and the allowance for doubtful accounts was $Nil (2015 - $Nil).

Market risk

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

Interest risk

The Company is financed through loans from related parties and bank loans, which bear interest at rates tied to the Canadian bank prime rate. The Company's exposure to interest rate risk relates primarily to variable interest rates on bank and related party debt totalling $8,573,211. The variable interest rates range from prime less 0.65% to prime plus 2.0%. A 1% change in the bank prime interest rate causes a $85,572 change in annual interest expense. The Company does not use derivative instruments to reduce its exposure to interest rate fluctuations.

Foreign currency risk

There is a risk to the Company's earnings that arises from fluctuations in foreign exchange rates, and the degree of volatility of these rates. The Company's financial results are reported in Canadian dollars. The Company is exposed to foreign exchange fluctuations against the Canadian dollar as sales are primarily denominated in U.S. dollars and other foreign currencies, while expenditures are primarily denominated in Canadian dollars. The Company did not use derivative financial instruments to manage this risk. For the year ended March 31, 2016, the Company had a foreign exchange loss of $66,017 (2015 - gain of $60,218). A 10% change in the value of the U.S. dollar against the Canadian dollar would have an approximate foreign exchange gain or loss of $129,297 and $86,836 for the fiscal years ended March 31, 2016 and 2015, respectively.

20. Financial instruments (continued)

Fair value hierarchy (continued)

Foreign currency risk (continued)

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

	2016	2015
	$	$
Bank indebtedness	**(331,415)**	(741,140)
Trade receivables	**1,267,865**	982,400
Unbilled revenue	**78,807**	14,798
Inventory	**57,277**	82,395
Property, plant and equipment, net	**2,894,160**	3,182,444
Trade and other payables	**(439,332)**	(897,353)
Deferred revenue	**(224,298)**	(139,815)
Long-term debt	**(2,010,093)**	(3,210,579)
	1,292,971	(726,850)

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, 2016, most of the Company's accounts payable were current. The vast majority of accounts payable fall due for payment within forty-five days. Accrued liabilities are generally due after more than one month and in some cases it may not yet be possible to determine the contracted date for payment.

The Company is required to maintain certain financial covenants in connection with its existing banking arrangements (Note 8).

Fair values

The carrying amounts for cash, trade accounts receivable, and accounts payable and accrued liabilities approximate fair value due to the short maturity of these instruments or the terms of the instrument. The carrying amount for the long-term debt approximated fair value as the interest rate was reflective of rates currently available for similar debt.

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

(In Canadian dollars)

21. 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:

	2016	2015
	$	$
Short-term employee benefits	**475,000**	475,000

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

Related party transactions

During the year ended March 31, 2016, the Company incurred interest expense of $425,535 (2015 - $497,921) of which $172,284 (2015 - $257,890) is interest on related party balances as described in Note 13.

On March 31, 2016 the Company's senior officers agreed to defer payment of consulting fees and salaries payable to August 2017. During fiscal 2016, a portion of these fees and salaries, amounting to $94,100 (2015 - $102,735), was paid to the senior officers. As at March 31, 2016, these outstanding fees and salaries to senior officers of the Company, who are also majority shareholders of Targa, amounted to $3,221,316 (2015 - $2,955,786 plus interest charges of $1,235,634 (2015 - $1,088,494) for a total payable of $4,456,950 (2015 - $4,044,280). These amounts are included in due to related parties.

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

22. Capital management

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, purchase and cancel shares previously issued, return capital to shareholders or sell assets to reduce debt. The Company considers the items included in equity as well as long-term debt as capital, which totals $2,226,805 (2015 - $5,301,708) at year-end.

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

The Company is subject to various covenants on long-term debt (including debt to tangible net worth, current assets to current liabilities, capital and debt service ratios). The Company is in breach of the debt service ratio and debt ratio covenant to which the bank has provided forbearance and will not demand repayment before April 1, 2017. The bank expects the Company to be onside on their covenant by March 31, 2017 (Note 8).

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

PLAINTREE SYSTEMS INC.

For the years ended March 31, 2016 and 2015

Date – July 29, 2016

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

The following discussion of the financial condition, changes in financial condition and results of operations of Plaintree is for the years ended March 31, 2016 and 2015. Historical results of operations, percentage relationships and any trends that may be inferred there from are not necessarily indicative of the operating results of any future periods. Unless otherwise stated all amounts are in Canadian dollars following the requirements of the International Financial Reporting Standards ("IFRS).The information contained herein is dated as of July 27, 2016 and is current to that date, unless otherwise stated. Management is responsible for ensuring that processes are in place to provide sufficient knowledge to support the representations made in the annual filings. Our Audit Committee and Board of Directors provide an oversight role with respect to all public financial disclosures by the Company, and have reviewed this MD&A and the accompanying financial statements.

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

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

Caution Regarding Forward Looking Information

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

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

Overview

Plaintree Systems Inc. ("Plaintree" or the "Company") was incorporated in Canada under the Canada Business Corporation Act and is publicly traded on the CSE under "NPT". The Company operates an Electronics division (the Hypernetics business, the free space optics business and Summit Aerospace USA Inc business) and a Specialty Structures division (the Triodetic business, Arnprior Fire Trucks Corp., Spotton Corp. and the Madawaska Doors business). Plaintree was historically a designer and manufacturer of wireless connections transmitting data on beams of light versus conventional radio frequency, commonly referred to as free space optics ("FSO"). The Hypernetics business manufactures avionic components for various applications including aircraft antiskid braking, aircraft instrument indicators, solenoids and permanent magnet alternators. The Triodetic business is a design/build manufacturer of steel, aluminum and stainless steel specialty structures such as commercial domes, free form structures, barrel vaults, space frames and industrial dome coverings. Summit, a wholly-owned subsidiary of Plaintree, specializes in the high end machining of super-alloys for the aircraft and helicopter markets. The business of Spotton, a wholly-owned subsidiary of Plaintree, involves the design and manufacture of high end custom hydraulic and pneumatic valves and cylinders for the industrial and oil and gas markets. Madawaska Doors, owned by 9366920 Canada Inc., a wholly-owned subsidiary of Plaintree, is a manufacturer of truly solid wood custom handcrafted doors made from finest woods from around the world. The address of the Company's registered office and principal place of business is 10 Didak Drive, Arnprior, Ontario.

Recent Developments

On July 20, 2015, the Corporation, through 9366920 Canada Inc., a wholly-owned subsidiary, acquired the assets and businesses of Madawaska Doors Inc., including a building located in Barry's Bay, Ontario, for a total purchase price of $280,000. The business of Madawaska Doors Inc. involves the manufacturing and selling of high quality, 100% natural solid wood custom doors and related parts and material. The Corporation intends to carry on the business of Madawaska Doors Inc. through its wholly-owned subsidiary.

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

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

Control Activities

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

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

Selected Annual Financial Information

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

($000s, except per share amounts)

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

($000s, except per share amounts)

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

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

Results of Operations

Plaintree Systems Inc.

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

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

BUSINESS SEGMENT INFORMATION

The Company's chief decision maker, the CEO, tracks the Company's operations as two business segments - the design, development, manufacture, marketing and support of electronic products, and the specialty structural products. From time to time, the Company provides management services primarily to related companies. The revenue and cost of sales related to these services are presented in the statement of comprehensive (loss) income. No other expenses or assets are attributable to this segment. The Company determines the geographic location of revenues based on the location of its customers. Of the total balance of $5,888,195 in property, plant and equipment $3,054,558 is located in Canada and $2,833,637 in the United States. All of the Company's intangible assets are primarily located in Canada.
The write off of the related party debt (2015 - $381,393) relates to the Speciality Structures segment.

Revenues by division

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

Net (loss) before taxes by division

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

Revenues by geographical location

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

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

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

Assets by division

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

Revenues

Revenue

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

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

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

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

Gross Margin

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

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

Operating Expenses

Research and development expenses

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

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

Finance and administration expenses

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

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

Sales and marketing expenses

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

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

Bad debt expenses

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

Interest expense

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

Gain (loss) on foreign exchange

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

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

Net loss and comprehensive loss for fiscals 2016 and 2015 was $(2,258,584) and $(401,351) respectively. Net income attributed to common shareholders is calculated by reducing net income by the $1,466,000 cumulative yearly dividends that accrue annually on the Class A preferred shares. The cumulative dividends accrue at 8% per annum on the face value of the $18,325,000 for the Class A preferred shares and as of March 31, 2016, the accrued and unpaid dividends on the Class A preferred shares were $10,928,000.

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

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

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

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

Liquidity and Capital Resources

($000s)	**2016** **$**	2015 $	**Change** $
Cash	**(5)**	58	(63)
Working Capital	**(376)**	1,167	(1,543)

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

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

Cash

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

Working Capital

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

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

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

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

Outlook – Going Concern

These consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As March 31, 2016, the Company had an accumulated deficit of $2,565,612 and, for the period then ended, the Company incurred a total comprehensive loss of $2,258,584. As at March 31, 2016, the Company had negative working capital of $376,485 and no cash on hand. The Company has in place a credit facility of up to $2M through its bank based on acceptable trade receivables and inventory (amount outstanding as at March 31, 2016, $1,110,654 which includes a letter of credit in the amount of $458,651). The Company's analysis of forecasted sales and expenses indicate improvement in both sales and cash flow after July 2016 as a result of contracts bid and or signed and their expected margins on these projects. As a result, the Company believes that it has sufficient cash resources to meet its obligations. However, should (i) the Company's bank credit facility fail to be available or fail to have sufficient availability to meet the Company's cash requirements; (ii) forecasts fall short of expectations in one or more of the Company's divisions; and/or (iii) another unprofitable event occurs such as the installation overruns in Saskatoon contract that have negatively affected the Company for the past 18 months, which is unanticipated, this will impact the Company's ability to generate sufficient cash to meet its requirements and this will impact its ability to continue as a going concern.

Related Party Transactions

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

As at March 31, 2016, a balance of $4,456,950 ($3,221,316 principal and $1,235,634 interest) (2015 - $4,044,280 - $2,955,786 principal and $1,088,494 interest) remained owing to senior officers of the Company. These amounts are classified as long-term as the parties have agreed not to demand repayment before August 2017.

On July 14, 2011, the board of directors of the Company declared a cash dividend of $10.91405 per Class A preferred share ($200,000 in the aggregate) payable on July 22, 2011 to the holders of record at the close of business on July 18, 2011. The Class A preferred shares are held by related parties and are entitled to annual cumulative dividends of 8% on the $1,000 redemption amount of the Class A preferred share. An amount of $60,000 (2015 - $60,000) of the dividend remains outstanding as of March 31, 2015. The balance is classified as long-term as the related party has agreed not to demand payment before August 2017.

As at March 31, 2016, a balance of $247,672 (2015 - $247,672) of the due to related parties is convertible into common shares of the Company at a rate of $0.0115 at the option of Targa). The balance is classified as long-term as the related party has agreed not to demand payment before August 2017.

Until March 31, 2003, the Company leased facilities from a company controlled by Targa. Lease arrears owing to this related party amounted to $174,974 (March 31, 2015 - $174,974). The Company accepted partial financing in the form of a note payable in the amount of $373,473 during fiscal 2014 from Tidal for a new facility in Pocono Summit. As at March 31, 2016 a balance of $328,109 remains outstanding. Loans totaling $420,003 owed to Spotton by Tidal have been consolidated into the net balance as of April 1, 2014 with the acquisition of Spotton Corp by the Company. The interest is at bank prime plus 2% and accrues on the principal balance for a balance of $174,974 as of March 31, 2016 (March 31, 2015 - $179,014). The party has agreed not to demand repayment of the total balance of $265,968 (March 31, 2015 - $279,094) before August 2017 and the amount is classified as long-term.

The Company has a demand loan of up to $1,800,000 and a revolving line of credit of up to $1,000,000 with Targa. Under the loan agreements, all amounts advanced to the Company are payable on demand and bear interest at bank prime plus 2%. The Targa Demand Loan is secured by a security interest granted over the assets of the Company. At March 31, 2016, $NIL, (2015 - $NIL) remained outstanding on the demand loan with accumulated interest of $66,581 (2015 - $66,581). At March 31, 2016, $396,965 (2015 - $546,965) remained outstanding on the line of credit with accumulated interest of $242,598 for a balance of $639,563. Targa has agreed that it will not demand repayment before August 2017 and, accordingly, the amounts are classified as long-term.

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

Facilities

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

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

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

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

Payments due by period

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

Risk Factors Affecting Future Business

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

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

Credit risk

Credit risk arises from cash held with banks and credit exposure to customers, and others from outstanding trade receivables and unbilled revenue. The objective of managing counterparty credit risk is to prevent losses on financial assets, specifically cash, trade receivables and unbilled revenue. The Company assesses the credit quality of counterparties, taking into account their financial position, past experience and other factors.

Cash

Cash consists of bank deposits. Credit risk associated with cash is minimized substantially by ensuring that these financial assets are invested in highly rated financial institutions. As at March 31, 2016, the Company was in a cash deficit position with banks of $(4,576), (2015 – $57,757). During the years ended March 31, 2016 and 2015, the Company did not hold any investments in asset-backed commercial paper.

Accounts receivable

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

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

Maximum credit risk is limited to the balance in cash, trade receivables and unbilled revenue totalling $3,076,791 (2015 - $4,638,602). As of March 31, 2016, trade receivables were comprised of two companies totalling 11% and 14% (2015 – 1 company totalling 24%). As at March 31, 2016, the Company's ageing of accounts receivable was approximately 86% (2015 - 52%) under sixty days, 4% (2015 - 9%); over 60 - 90 days and 10% (March 31, 2015 - 39%) over 90 days and the allowance for doubtful accounts was $NIL (2015 - $NIL).

Market risk

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

Interest risk

The Company is financed through loans from related parties and bank loans which bear interest at rates tied to the Canadian bank prime rate. The Company's exposure to interest rate risk relates primarily to variable interest rates on bank and related party debt totalling $8,573,211. The variable interest rates range from prime less 0.65% to prime plus 2.0%. A 1% change in the bank prime interest rate causes an $85,572 change in annual interest expense. The Company does not use derivative instruments to reduce its exposure to interest rate fluctuations.

Foreign currency risk

There is a risk to the Company's earnings that arises from fluctuations in foreign exchange rates, and the degree of volatility of these rates. The Company's financial results are reported in Canadian dollars. The Company is exposed to foreign exchange fluctuations against the Canadian dollar as sales are primarily denominated in U.S. dollars and other foreign currencies, while expenditures are primarily denominated in Canadian dollars. The Company did not use derivative financial instruments to manage this risk. For the year ended March 31, 2016, the Company had a foreign exchange loss of $66,017 (2015 – gain of $60,218). A 10% change in the value of the U.S. dollar against the Canadian dollar would have an approximate foreign exchange gain or loss of $129,297 and $86,836 for the fiscal years ended March 31, 2016 and 2015, respectively.

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

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

Liquidity risk

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

The Company generally makes bi-monthly payments to vendors. At March 31, 2016, most of the Company's accounts payable were current. The vast majority of accounts payable fall due for payment within forty-five days. Accrued liabilities are generally due after more than one month and in some cases it may not yet be possible to determine the contracted date for payment.

The Company is required to maintain certain financial covenants in connection with its existing banking arrangements (Note 8).

Fair values

The carrying amounts for cash, trade accounts receivable, and accounts payable and accrued liabilities approximate fair value due to the short maturity of these instruments or the terms of the instrument. The carrying amount for the long-term debt approximated fair value as the interest rate was reflective of rates currently available for similar debt.

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

Capital Management

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, purchase and cancel shares previously issued, return capital to shareholders or sell assets to reduce debt. The Company considers the items included in equity as well as long-term debt as capital, which totals $2,226,805 (2015 - $5,301,708) at year-end.

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

The Company is subject to various covenants on long-term debt (including debt to tangible net worth, current assets to current liabilities, capital and debt service ratios). The Company is in breach of the debt service ratio and debt ratio covenant to which the bank has provided forbearance and will not demand repayment before April 1, 2017. The bank expects the Company to be onside on their covenant by March 31, 2017 (Note 8).

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended March 31, 2016 compared to the year ended March 31, 2015.

New Standards effective April 2018

IFRS 9: Financial Instruments

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

IFRS 15: Revenue from Contracts with Customers

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

IFRS 16: Leases

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

Summary of Outstanding Share Data

As at July 29, 2016, the following equity instruments of the Company were issued and outstanding:

Common Shares: 12,925,253

Class A Preferred Shares: * 18,325

* The Class A Preferred shares provide an 8% cumulative dividend based on a value of $1,000 per share, are redeemable at the option of the Company at any time at $1,000 per share plus accrued dividends and they are non-voting.

Convertible Debentures:** $nil principal value

** The Company has issued various tranches of convertible debentures to related parties for total outstanding value at March 31, 2016, of $247,672 in accrued interest only. Interest is convertible in cash only.

Options:*** None

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

Plaintree Systems Inc.

Board of Directors

W. David Watson II
President & Chief Executive Officer

William D. Watson
Chairman of the Board

Robert E. Shea
Chairman, Shea Financial Group

Jerry S. Vickers
Financial/Business Consultant

Girvan L. Patterson
President, GaN Systems Inc.

Senator John Buchanan P.C., Q.C.
Senator and Lawyer

Executives and Officers

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President & Chief Executive Officer

Lynn E. Saunders
Chief Financial Officer

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Ottawa, Ontario, Canada

Stock Exchange Listings

CSE: NPT