

Consolidated Financial Statements of

PLAINTREE SYSTEMS INC.

*March 31, 2012 and 2011
(in Canadian dollars)*

Independent Auditor's Report

To the Board of Directors and 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, 2012, March 31, 2011 and April 1, 2010 and the consolidated statements of comprehensive income (loss), consolidated statements of cash flows and consolidated statements of changes in equity for the years ended March 31, 2012 and March 31, 2011, 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 audits 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.

Independent Auditor's Report (Continued)

Auditor's Responsibility (Continued)

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, 2012, March 31, 2011 and April 1, 2010, and its financial performance and its cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with International Financial Reporting Standards.

Deloitte + Touche LLP

Chartered Accountants
Licensed Public Accountants

July 16, 2012

PLAINTREE SYSTEMS INC.
Consolidated Financial Statements
March 31, 2012 and 2011
(In Canadian dollars)

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PLAINTREE SYSTEMS INC.
Consolidated Statements of Financial Position
as at March 31, 2012, March 31, 2011 and April 1, 2010
(in Canadian dollars)

	March 31, 2012	March 31, 2011	April 1, 2010
Current Assets			
Cash	\$ 680,000	\$ 371,471	\$ 1,401,678
Trade receivables	1,816,301	1,954,530	1,381,245
Unbilled revenue	141,989	506,654	670,891
Inventories (Note 6)	1,723,292	1,341,619	1,377,474
Other assets	164,705	186,624	160,662
Due from related party (Note 10)	1,284,665	1,102,770	745,720
Assets held-for-sale (Note 7)	1,165,702	1,349,390	-
	6,976,654	6,813,058	5,737,670
PROPERTY, PLANT AND EQUIPMENT (Note 11)	3,985,150	2,116,699	2,967,206
NOTE RECEIVABLE (Note 8)	446,509	-	-
INTANGIBLE ASSETS (Note 12)	1,324,912	43,347	46,675
	\$ 12,733,225	\$ 8,973,104	\$ 8,751,551
Current liabilities			
Trade and other payables (Note 14)	\$ 1,277,945	\$ 1,085,709	\$ 1,078,502
Due to related parties (Note 13)	60,000	10,000	-
Deferred revenue	462,877	346,728	742,374
Deferred gain on sale of property, plant and equipment (Note 8)	59,022	-	-
Note payable (Note 5)	750,000	-	-
Current portion of long-term debt (Note 9)	2,947,897	1,207,650	1,036,454
	5,557,741	2,650,087	2,857,330
DUE TO RELATED PARTIES (Note 13)	4,756,986	4,060,395	3,748,287
DEFERRED GAIN ON SALE OF PROPERTY, PLANT AND EQUIPMENT (Note 8)	236,088	-	-
NOTE PAYABLE (Note 5)	750,000	-	-
	11,300,815	6,710,482	6,605,617
Equity			
Share capital (Note 15)	2	97,844,652	97,844,652
Share-based reserve	-	914,275	910,882
Retained earnings (deficit)	1,432,408	(96,496,305)	(96,609,600)
	1,432,410	2,262,622	2,145,934
	\$ 12,733,225	\$ 8,973,104	\$ 8,751,551

APPROVED BY THE BOARD:

"Jerry Vickers"

"Girvan Patterson"

See accompanying notes to the consolidated financial statements.

PLAINTREE SYSTEMS INC.

Consolidated Statements of Comprehensive Income (Loss)

for the years ended March 31, 2012 and March 31, 2011

(in Canadian dollars)

	<u>2012</u>	<u>2011</u>
Revenue	\$ 12,640,541	\$ 11,040,555
Cost of sales	9,607,003	6,880,774
Gross margin	3,033,538	4,159,781
Operating expenses		
Research and development	1,596,797	1,671,625
Finance and administration	1,022,400	1,046,749
Sales and marketing	695,383	630,089
Bad debt	233,092	-
Interest expense	198,302	123,814
(Gain) loss on foreign exchange	(14,464)	46,309
	3,731,510	3,518,586
(Loss) income from operations	(697,972)	641,195
Other income (expenses)		
Loss on disposal of property, plant and equipment	-	(10,815)
Write-down of assets held-for-sale	-	(297,000)
Net (loss) income before income taxes	(697,972)	333,380
Current income tax expense	17,931	20,085
Deferred income tax (recovery)	(84,070)	-
	(66,139)	20,085
Net (loss) income and comprehensive (loss) income	\$ (631,833)	\$ 313,295
Basic and diluted earnings (loss) per share (Note 16)	\$ (0.16)	\$ (0.09)
Weighted average common shares outstanding	12,925,253	12,925,253

See accompanying notes to the consolidated financial statements.

PLAINTREE SYSTEMS INC.
Consolidated Statements of Cash Flows
for the years ended March 31, 2012 and March 31, 2011
(in Canadian dollars)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Net income (loss) for the year	\$ (631,833)	\$ 313,295
Write-down of inventories	273,359	140,969
Write-down of assets held for disposal	-	297,000
Loss on disposal of property, plant and equipment	-	10,815
Deferred income taxes	(84,070)	-
Depreciation of intangible assets	39,695	38,512
Depreciation of property, plant and equipment	328,754	323,877
Stock-based compensation expense	1,620	3,393
	(72,474)	1,127,861
Movements in working capital		
Decrease (increase) in trade and other receivables	138,229	(573,285)
Decrease in unbilled revenue	364,665	164,237
(Increase) in inventories	(635,633)	(105,114)
(Increase) in notes receivable	(446,509)	-
Decrease (Increase) in other assets	21,921	(25,783)
(Increase) in due from related parties	(181,895)	(357,050)
Increase in trade and other payables	192,237	7,207
Increase (decrease) in deferred revenue	116,149	(395,646)
Net cash used in operations	(503,310)	(157,573)
Interest paid on related party debt	148,876	108,228
Net cash (used in) operating activities	(354,434)	(49,345)
Cash flows from investing activities		
Payments to acquire property, plant and equipment	(424,907)	(1,132,088)
Payments to acquire intangible assets	(7,990)	(35,184)
Proceeds from disposal of property, plant and equipment	457,898	1,333
Net cash (used in) investing activities	25,001	(1,165,939)
Cash flows from financing activities		
Proceeds from long-term debt	499,500	316,000
Repayment of borrowings	(259,253)	(144,804)
Increase in borrowings - related party	547,714	203,881
Dividends paid on Class A preferred shares	(150,000)	(190,000)
Net cash from financing activities	637,961	185,077
Net cash inflow (outflow)	308,529	(1,030,207)
Cash , beginning of year	371,471	1,401,678
Cash , end of year	\$ 680,000	\$ 371,471

See accompanying notes to the consolidated financial statements.

Non-cash transactions:

Excluded from the consolidated statements of cash flows is the acquisition of Summit Tool, which includes \$1,751,400 in property, plant and equipment, \$19,400 in inventory, \$1,313,270 in intangible assets and \$84,070 in a deferred tax liability that were acquired with a \$1,500,000 note payable and \$1,500,000 in long-term debt

PLAINTREE SYSTEMS INC.
Consolidated Statements of Changes in Equity

for the years ended March 31, 2012 and March 31, 2011

(in Canadian dollars)

	Common Shares		Preferred Shares ⁽¹⁾		Retained Earnings (Deficit)	Share-based reserve	Equity
	Number	Issued Capital	Number	Issued Capital			
Balances at April 1, 2010	12,925,253	\$ 97,844,651	18,325	\$ 1	\$ (96,609,600)	\$ 910,882	\$ 2,145,934
Stock-based compensation expense	-	-	-	-	-	3,393	3,393
Net income	-	-	-	-	313,295	-	313,295
Dividend declared on preferred shares	-	-	-	-	(200,000)	-	(200,000)
Balances at March 31, 2011	12,925,253	97,844,651	18,325	1	(96,496,305)	914,275	2,262,622
Stock-based compensation expense	-	-	-	-	-	1,621	1,621
Net loss	-	-	-	-	(631,833)	-	(631,833)
Dividend declared on preferred shares	-	-	-	-	(200,000)	-	(200,000)
Reduction in stated capital (Note 11)	-	(97,844,650)	-	-	98,760,546	(915,896)	-
Balances at March 31, 2012	12,925,253	\$ 1	18,325	\$ 1	\$ 1,432,408	\$ -	\$ 1,432,410

See accompanying notes to the consolidated financial statements.

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

PLAINTREE SYSTEMS INC.

Notes to the Consolidated Financial Statements

years ended March 31, 2012 and 2011
(in Canadian dollars)

1. DESCRIPTION OF THE BUSINESS

Plaintree Systems Inc ("Plaintree" or the "Company") was incorporated in Canada under the Canada Business Corporation Act and is publicly traded on the CNSX ("Canadian National Stock Exchange") under the ticker "NPT". The Company operates an Electronics division (the Hypernetics business, the free space optics business and the newly acquired Summit Aerospace USA Inc. business) and a Specialty Structures division (the Triodetic business and Arnprior Fire Trucks Corp.). 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. The Arnprior Fire Trucks business involves the custom build of high-end fire trucks and emergency vehicles sold to municipalities within North America.

On February 6, 2012, Plaintree announced the purchase of all of the assets of Summit Tool Corp. ("Summit Tool") of Pocono Summit, Pennsylvania. This company continues in its existing location under the new name Summit Aerospace USA Inc. as a wholly-owned subsidiary of Plaintree Systems Inc. (Note 5).

The address of the Company's registered office and principal place of business is 10 Didak Drive, Arnprior, Ontario K7S 0C3.

2. STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION

Effective for the fiscal year beginning April 1, 2011, the Company has adopted International Financial Reporting Standards ("IFRS") for the preparation of its interim and annual financial statements based on the requirement announced in February 2008 by the Accounting Standards Board for publicly accountable entities. As a result, these consolidated financial statements represent the first annual statements of the Company prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB). As a first-timer adopter, the Company has followed the requirements of IFRS 1 - *First Time Adoption of International Financial Reporting Standards* in its application of IFRS. The accounting policies of the Company are based on the IFRS applicable as at March 31, 2012, and encompasses individual IFRS, International Accounting Standards ("IAS"), and interpretations made by the IFRS Interpretations Committee ("IFRIC") and the Standards Interpretations Committees ("SIC"). The Company previously prepared its statements based on Canadian generally accepted accounting principles (previous "GAAP" or "Canadian GAAP").

PLAINTREE SYSTEMS INC.
Notes to the Consolidated Financial Statements
years ended March 31, 2012 and 2011
(in Canadian dollars)

2. STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION (Continued)

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing the opening IFRS statement of financial position as at April 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated (see Note 4). All future interim and annual financial reports for the Company will be prepared in accordance with IFRS and no longer in accordance with Canadian GAAP.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 4. This Note includes reconciliations of changes in equity (deficiency) and comprehensive income (loss) of the comparative year and of the equity (deficiency) at the date of transition reported under previous Canadian GAAP to IFRS.

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

The financial statements were approved for issue by the Board of Directors on July 16, 2012.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies include the following:

Consolidation

The consolidated financial statements include the accounts of Plaintiff Systems Inc. and its wholly-owned subsidiaries Summit Aerospace USA Inc. and Triodetic Inc. (U.S. companies) and Arnprior Fire Trucks Inc. (Canadian company). Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries align with the policies adopted by the Company. All inter-company transactions have been eliminated.

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.

PLAINTREE SYSTEMS INC.
Notes to the Consolidated Financial Statements
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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

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

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

Intangible assets

The Company's intangible assets consist of a customer relationship, a non-competition agreement and software. 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

PLAINTREE SYSTEMS INC.
Notes to the Consolidated Financial Statements
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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of assets

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 as an asset may not be recoverable. The Company will record an impairment of the assets 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.

PLAINTREE SYSTEMS INC.
Notes to the Consolidated Financial Statements
years ended March 31, 2012 and 2011
(in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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's 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.

PLAINTREE SYSTEMS INC.
Notes to the Consolidated Financial Statements
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(in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 revenues 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.

Purchase price allocation

As described in Note 5 of these financial statements, the Company acquired various assets from Summit Tool. 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 equipment was estimated based on appraisal and valuation information and the fair values of the intangibles were valued using the excess earnings method under the income approach.

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.

PLAINTREE SYSTEMS INC.
Notes to the Consolidated Financial Statements
years ended March 31, 2012 and 2011
(in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical accounting estimates and judgements (Continued)

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 is 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 revenues; deferred revenues; inventory obsolescence; ability to utilize tax losses and investment tax credits; and measurement of deferred taxes. In making estimates, management relies on external information and observable conditions where possible, supplemented by internal analysis where required.

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

Income taxes

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

PLAINTREE SYSTEMS INC.
Notes to the Consolidated Financial Statements
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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings per share

Earnings 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 attributable to common shareholders is equal to net income less the dividends accumulated on the preferred shares. Diluted earnings 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 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.

PLAINTREE SYSTEMS INC.
Notes to the Consolidated Financial Statements
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(in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Other liabilities

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

Fair value through profit or loss

Financial asset or liability that is held-for-trading measured at fair value each period with gains and losses through income.

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics, and management intent as outlined below:

Cash is designated as at FVTPL which is measured at fair value, with changes in fair value being recorded income at each period end.

Trade accounts receivable are classified as loans and receivables and accounts payable and accrued liabilities classified as other financial liabilities and are measured at amortized costs with interest accretion recorded in net income. Due to the short-term nature of these assets and liabilities, the carrying amounts approximate fair value.

All loans, bank loans, bonds and debentures or similar debt are measured at amortized cost with interest accretion recorded in net income.

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The accounting standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The inputs fall into three levels that may be used to measure fair value:

Level 1 - Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 - Applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Fair value through profit or loss (Continued)

Level 3 - Applies to assets or liabilities for which there is no observable market data.

New and revised IFRS in issue but not effective

IFRS 9 Financial Instruments

IFRS 9, *Financial Instruments* was issued by the IASB on November 12, 2009 and will replace IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules 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 new standard also required a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015 with early adoption permitted. The Company is currently evaluating the impact on its consolidated financial statements.

IFRS 10 Consolidated Financial Statements

On May 12, 2011, the IASB issued IFRS 10, *Consolidated Financial Statements*. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more of the other entities. IFRS 10 replaces the consolidated requirements in SIC-12 *Consolidation - Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements* and is effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted. The Company is currently evaluating the impact on its consolidated financial statements.

IFRS 11 Joint Arrangements

On May 12, 2011 the IASB issued IFRS 11, *Joint Arrangements*. IFRS 11 provides a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. The Company is currently evaluating the impact on its consolidated financial statements

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

New and revised IFRS in issue but not effective (Continued)

IFRS 12 Disclosure of Interests in Other Entities

On May 12, 2011, the IASB issued IFRS 12, Disclosure of Interests in Other Entities. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted. The Company is currently evaluating the impact on its consolidated financial statements.

IFRS 13 Fair Value Measurement

On May 12, 2011, the IASB issued IFRS 13, *Fair Value Measurement*. IFRS 13, which is effective from January 1, 2013, defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions). The Company is currently evaluating the impact on its consolidated financial statements

Amendments to IAS 1 Presentation of items of Other Comprehensive Income

The amendments retain the option to present profit or loss and other comprehensive income either in one continuous statement or in two separate but consecutive statements. Items of other comprehensive income are required to be grouped into those that will and will not be subsequently reclassified to profit or loss. Tax on items of other comprehensive income is required to be allocated on the same basis. The measurement and recognition of items of profit or loss and other comprehensive income are not affected by the amendments. The amendments to IAS 1 are effective for financial years beginning on or after January 1, 2012, with earlier application permitted. The Company is evaluating the impact of the amendments to IAS 1 on its consolidated financial statements.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

New and revised IFRS in issue but not effective (Continued)

IAS 28 Investments in Associates and Joint Ventures

IAS 28, *Investments in Associated and Joint Ventures* was re-issued by the IASB on May 12, 2011 in order to conform to changes as a result of the issuance of IFRS 10, IFRS 11, and IFRS 12. IAS 28 continues to prescribe the accounting for investments in associates, but is now the only source of guidance describing the application of the equity method. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee. The amended version of IAS 28 is effective for financial years beginning on or after January 1, 2013, with earlier application permitted. The Company is evaluating the impact of IAS 28 on its consolidated financial statements.

4. TRANSITIONS TO IFRS

These financial statements have been prepared using International Financial Reporting Standard 1, *First-time Adoption of International Financial Reporting Standards (IFRS 1)*, as issued by the International Accounting Standards Board. The date of transition to IFRS is April 1, 2010 (the "Transition Date"). The Company's IFRS accounting policies presented in Note 3 have been applied in preparing the financial statements for the period ended March 31 2012, the comparative information and the opening statement of the financial position at the date of transition. The effects of the transition to IFRS on equity, comprehensive income (loss) and reported cash flows are presented in this section.

a. Mandatory exceptions to retrospective application

The Company has applied the following mandatory exceptions from full retrospective application of IFRS as described below:

i. *Estimates*

Hindsight was not used to create or revise estimates and accordingly estimates previously made by the Company under Canadian GAAP are consistent with their application under IFRS.

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4. TRANSITIONS TO IFRS (Continued)

b. Elected exemptions from full retrospective application

In preparing these consolidated financial statements in accordance with IFRS 1, the Company has applied certain of the optional exemptions from full retrospective application of IFRS. The optional exemptions applied are as follows:

i. *Business combinations*

The Company has applied the business combinations exemption in IFRS 1 to not apply IFRS 3R retrospectively to past business combinations. Accordingly, the Company has not restated business combinations that took place prior to the transition date, except for transactions under common control which are accounted for at their carrying value.

ii. *Borrowing costs*

The Company has elected to apply IAS 23, *Borrowing Costs* ("IAS 23") on a prospective basis and capitalize borrowing costs to qualifying assets for which the commencement date for capitalization is on or after the transition date.

iii. *Share-based payment transactions*

The Company elected to apply IFRS 2 only to options issued which were not fully vested at April 1, 2010.

iv. *Determining whether an arrangement contains a lease*

The Company elected to apply the transitional provisions of IFRIC 4, *Determining Whether an Arrangement Contains a Lease*. The Company has no arrangements containing a lease at the transition date.

c. Reconciliation of Equity (Deficiency) as Reported Under Canadian GAAP and IFRS

There were no significant changes to equity (deficiency) as reported under Canadian GAAP and IFRS during the periods of April 1, 2010, March 31, 2011 and March 31, 2012.

d. Reconciliation of loss and comprehensive loss as reported under Canadian GAAP to IFRS

There were no significant changes to income (loss) and comprehensive income (loss) as reported under Canadian GAAP and IFRS during the periods of April 1, 2010, March 31, 2011 and March 31, 2012.

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4. TRANSITIONS TO IFRS (Continued)

e. Reconciliation of Cash Flows as reported under Canadian GAAP to IFRS

There were no significant changes to cash flows during the twelve month periods ended March 31, 2012 and March 31, 2011.

f. Reconciliation of Statement of Financial Position as reported under Canadian GAAP to IFRS

The long-term debt balances of \$1,041,107 at March 31, 2011 and \$855,844 at April 1, 2010 were reclassified to current liabilities. Though, the bank waived the right to demand repayment of the debt, as indicated in Note 9, 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.

5. ACQUISITION OF SUMMIT TOOL CORP.

On February 6, 2012, Plaintiff Systems Inc., along with its wholly-owned subsidiary Summit Aerospace USA Inc., completed its acquisition of the assets of Summit Tool Corp. ("Summit Tool"), consisting primarily of precision machining equipment. The total consideration was US\$3 million, of which US\$1.5 million was paid on closing through debt financing (Note 9), and the balance, which included US\$500,000 in contingent consideration, is to be payable in three tranches as follows:

- (i) US\$375,000 on August 6, 2012;
- (ii) US\$375,000 on February 6, 2013; and
- (iii) US\$750,000 on August 6, 2013.

The Company is required to pay the former shareholder of Summit Tool an amount of US\$500,000 if Summit Tool attains specified levels of revenues for the next 18 months. Management believe that Summit Tool will meet its targets. Therefore, the amount of US\$500,000 represents the estimated fair value of the Company's obligation at the acquisition date and it has been included in the above.

The acquisition is considered a business combination to which IFRS3, *Business Combinations* applies.

The assets acquired and liabilities recognized at the date of acquisition, based on the US\$3,000,000 consideration are allocated as follows:

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5. ACQUISITION OF SUMMIT TOOL CORP. (Continued)

<u>Current assets</u>	
Inventory	\$ 19,400
 <u>Non-current assets</u>	
Property, plant and equipment	1,751,400
Customer relationship	1,303,270
Non-competition agreement	10,000
 <u>Current liabilities</u>	
Deferred tax liability recognized on acquisition	<u>(84,070)</u>
 Net assets acquired	 <u>\$ 3,000,000</u>

In addition, Summit Aerospace entered into a lease arrangement with Summit Tool to continue to use that company's former premises for a one-year period. Summit Aerospace also has a first right to purchase the premises until February 6, 2014. All of the former employees of Summit Tool have agreed to remain employed in the business with Summit Aerospace. The newly acquired business will continue to be operated in Pennsylvania by Summit Aerospace USA Inc. Summit Tool has been operating as a value added manufacturer of aerospace engine components for over 30 years.

6. INVENTORIES

	<u>March 31, 2012</u>	<u>March 31, 2011</u>	<u>April 1, 2010</u>
Raw materials	\$ 619,156	\$ 579,526	\$ 744,340
Work in process	791,252	635,073	534,040
Finished goods	312,884	127,020	99,094
	<u>\$ 1,723,292</u>	<u>\$ 1,341,619</u>	<u>\$ 1,377,474</u>

The cost of inventories recognized as an expense during the year was \$9,275,422 (2011 - \$4,888,933). The total carrying value of inventory at March 31, 2012 was pledged as security through general security agreements under bank loans and related party liabilities.

The Company wrote down its inventories by \$273,359 in fiscal 2012 (2011 - \$140,969) to reflect where the carrying amount exceeded net realizable value. An amount of \$219,162 (2011 - \$176,893) in inventories that was previously written off was reversed due to the fact that its net realizable value increased.

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7. ASSETS HELD-FOR-SALE

Assets held-for-sale as of March 31, 2012 consists of a manufacturing property owned by the Company that is vacant and available-for-sale. Plaintiff signed a lease in October 2010 on a 135,500 sq. ft. building in Arnprior, Ontario owned by Tidal Quality Management Corporation, a company owned by Targa Group Inc., the Company's largest shareholder and a company controlled by David Watson, Plaintiff's Chief Executive Officer ("CEO"). The move to the new location was completed in fiscal 2011 and the Company has its one remaining building for sale. The assets are recorded at the lower of carrying value and fair value less estimated selling costs which resulted in a write-down of \$297,000 in fiscal 2011. The property has mortgage loans totalling \$595,668 (Note 9) that would need to be satisfied at the time of sale of the property.

The total assets held-for-sale consists of the following:

	March 31, 2012	March 31, 2011	April 1, 2010
Buildings	\$ 610,040	\$ 752,830	\$ -
Leasehold improvements	481,987	519,086	-
Land	110,875	130,874	-
Less: Costs to sell	(37,200)	(53,400)	-
	\$ 1,165,702	\$ 1,349,390	\$ -

8. 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 was sold for \$470,000. The Company assumed a vendor take-back first mortgage of \$446,509 for a three-year term, interest only payments in the first 12 months, at prime plus 2% per annum. The gain on the sale of \$295,110 has been deferred and will be recognized as income over the three-year term of the mortgage, with \$59,022 being recognized in the 2013 fiscal year.

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9. LONG-TERM DEBT

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Bank loan bearing interest at the rate of prime plus 1.25% per annum, due in monthly principal plus interest instalments of \$4,733, secured by a general security agreement, matures April 15, 2013.	\$ 48,655	\$ 102,131	\$ 153,771
Bank loan bearing interest at the rate of prime plus 1.25% per annum, payable in monthly principal plus interest instalments of \$4,221, secured by a general security agreement, maturing October 1, 2027. (Note 7)	406,791	439,338	471,929
Term loan payable in monthly instalments of \$733, bearing interest at the rate of prime minus 0.65% per annum, secured by a mortgage on a property, maturing November 7, 2016.	110,549	118,992	128,772
Demand non-revolving loan payable in monthly blended instalments of principal and interest, at the rate of prime plus 1.5%, secured by general security agreement, maturing five years from the date of each draw-down or February 27, 2022.	96,838	-	-
Balance, carry forward	<u>662,833</u>	<u>660,461</u>	<u>754,472</u>

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9. LONG-TERM DEBT (Continued)

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Balance, carried forward	\$ 662,833	\$ 660,461	\$ 754,472
Demand non-revolving loan payable in monthly blended instalments of principal and interest, at the rate of prime plus 1.5%, secured by general security agreement, maturing five years from the date of each draw-down or October 9, 2021	384,637	316,000	-
Demand non-revolving loan payable in monthly blended instalments of principal and interest, at the rate of prime plus 1.5%, secured by general security agreement, maturing ten years following full draw-down of \$500,000 of the loan or June 18, 2016.	276,550	-	-
Demand non-revolving loan payable in monthly instalments of \$65,000 USD plus LIBOR plus 3% per annum, maturing January 2, 2016.	1,435,000	-	-
Term loan payable in monthly instalments of \$1,929, bearing interest at the rate of prime plus 1.25% per annum, secured by equipment and a general security agreement, maturing December 2011.	-	13,131	35,293
Balance, carry forward	2,759,020	989,592	789,765

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9. LONG-TERM DEBT (Continued)

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Balance, carried forward	\$ 2,759,020	\$ 989,592	\$ 789,765
Term non-revolving loan payable in monthly instalments of \$3,161 bearing interest at the rate of prime plus 1.25% per annum, maturing September 18, 2018. (Note 7)	188,877	218,058	246,689
	2,947,897	1,207,650	1,036,454
Current portion	(2,947,897)	(1,207,650)	(1,036,454)
	\$ -	\$ -	\$ -

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

2013	\$ 999,263
2014	825,608
2015	170,608
2016	170,608
2017	149,487
Thereafter	632,323
	<u>\$ 2,947,897</u>

As at March 31, 2012, the Company was in breach of the debt service coverage ratio which was required to be maintained at a minimum of 125%. Debt service coverage ratio is determined by dividing earnings before interest, taxes, depreciation and amortization by the annual payment of principal and interest.

As a result of the covenant breach, the long-term debt has been reclassified to current. The bank has waived the right to demand repayment of the debt but 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 bank has continued to provide funding under the terms of this facility.

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10. DUE FROM RELATED PARTY

Due from related party consists of \$1,284,665 (March 31, 2011 - \$1,102,770; April 1, 2010 - \$745,720) due from Spotton Corporation, a company controlled by Targa Group Inc. ("Targa") (Note 7). The balance accrues interest at prime plus 2% and is due from the related party on demand. The \$181,895 change in the balance from fiscal 2011 relates to rent of \$42,000 (March 31, 2011 - \$54,000; April 1, 2010 - \$60,000) and utilities charges, advances and related interest.

PLAINTREE SYSTEMS INC.

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11. PROPERTY, PLANT AND EQUIPMENT

Cost, balance	Factory Equipment	Computer Equipment	Furniture	Vehicles	Lease Improvements	Building	Land	Total
April 1, 2010	\$ 2,866,286	\$ 956,732	\$ 186,475	\$ 68,768	\$ 1,058,730	\$ 1,133,016	\$ 180,874	\$ 6,450,881
Additions	390,209	54,797	7,969	56,608	622,505	-	-	1,132,088
Disposals	(14,754)	(13,454)	-	(10,000)	(297,000)	-	-	(335,208)
Transfer to held-for-sale	-	-	-	-	(719,938)	(982,016)	(130,874)	(1,832,828)
March 31, 2011	3,241,741	998,075	194,444	115,376	664,297	151,000	50,000	5,414,933
Additions	1,959,693	2,049	-	32,528	182,037	-	-	2,176,307
March 31, 2012	\$ 5,201,434	\$ 1,000,124	\$ 194,444	\$ 147,904	\$ 846,334	\$ 151,000	\$ 50,000	\$ 7,591,240
Accumulated depreciation, balance	Factory Equipment	Computer Equipment	Furniture	Vehicles	Lease Improvements	Building	Land	Total
April 1, 2010	\$ (1,946,801)	\$ (922,517)	\$ (161,842)	\$ (56,086)	\$ (182,494)	\$ (213,933)	\$ -	\$ (3,483,673)
Depreciation	(141,374)	(27,879)	(3,655)	(10,863)	(93,730)	(44,376)	-	(321,877)
Depreciation on disposals	3,672	13,154	-	9,054	-	-	-	25,880
Transfer to held-for-sale	-	-	-	-	254,252	229,186	-	483,438
March 31, 2011	(2,084,503)	(937,242)	(165,497)	(57,895)	(21,972)	(29,123)	-	(3,296,232)
Depreciation	(193,281)	(26,997)	(4,297)	(20,668)	(75,857)	(7,550)	-	(328,650)
Transfer to held-for-sale	-	-	-	-	20,834	-	-	20,834
March 31, 2012	\$ (2,277,784)	\$ (964,239)	\$ (169,794)	\$ (78,563)	\$ (76,995)	\$ (36,673)	\$ -	\$ (3,604,048)
Carrying amount, as at	Factory Equipment	Computer Equipment	Furniture	Vehicles	Lease Improvements	Building	Land	Total
April 1, 2010	\$ 919,484	\$ 34,214	\$ 24,633	\$ 12,682	\$ 876,235	\$ 919,083	\$ 180,874	\$ 2,967,205
March 31, 2011	\$ 1,157,237	\$ 60,833	\$ 28,947	\$ 57,481	\$ 640,324	\$ 121,877	\$ 50,000	\$ 2,116,699
March 31, 2012	\$ 2,923,609	\$ 35,885	\$ 24,650	\$ 69,341	\$ 767,338	\$ 114,327	\$ 50,000	\$ 3,985,150

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12. INTANGIBLE ASSETS

Cost	Balance at April 1, <u>2011</u>	<u>Additions</u>	Balance at March 31, <u>2012</u>
Customer relationship	\$ -	\$ 1,303,270	\$ 1,303,270
Non-competition agreement	-	10,000	10,000
Computer software	166,091	7,990	174,081
Total	\$ 166,091	\$ 1,321,260	\$ 1,487,351
Cost	Balance at April 1, <u>2010</u>	<u>Additions</u>	Balance at March 31, <u>2011</u>
Customer relationship	\$ -	\$ -	\$ -
Non-competition agreement	-	-	-
Computer software	130,907	35,184	166,091
Total	\$ 130,907	\$ 35,184	\$ 166,091
Accumulated depreciation	Balance at April 1, <u>2011</u>	<u>Additions</u>	Balance at March 31, <u>2012</u>
Customer relationship	\$ -	\$ -	\$ -
Non-competition agreement	-	-	-
Computer software	122,744	39,695	162,439
Total	\$ 122,744	\$ 39,695	\$ 162,439
Accumulated depreciation	Balance at April 1, <u>2010</u>	<u>Additions</u>	Balance at March 31, <u>2011</u>
Customer relationship	\$ -	\$ -	\$ -
Non-competition agreement	-	-	-
Computer software	84,232	38,512	122,744
Total	\$ 84,232	\$ 38,512	\$ 122,744
Net Carrying Amount	March 31, 2012	March 31, 2011	April 1, 2010
Customer relationship	\$ 1,303,270	\$ -	\$ -
Non-competition agreement	10,000	-	-
Computer software	11,642	43,347	46,675
Total	\$ 1,324,912	\$ 43,347	\$ 46,675

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13. DUE TO RELATED PARTIES

	<u>March 31,</u> <u>2012</u>	<u>March 31,</u> <u>2011</u>	<u>April 1,</u> <u>2010</u>
Due to senior officers	\$ 3,062,063	\$ 2,700,887	\$ 2,356,361
Dividends payable	60,000	10,000	-
Due to Targa Group Inc., convertible debentures	247,672	247,672	247,672
Due to Tidal Quality Management Inc.	313,621	304,872	339,924
Due to Targa Group Inc., line of credit	932,237	605,570	602,937
Due to Targa Group Inc., demand loan	66,581	66,581	66,581
Due to Targa Group Inc., loan interest	134,812	134,813	134,812
	4,816,986	4,070,395	3,748,287
Less: current portion	(60,000)	(10,000)	-
	\$ 4,756,986	\$ 4,060,395	\$ 3,748,287

As at March 31, 2012, a balance of \$3,062,063 (\$2,373,765 principal and \$688,298 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 2013.

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 of the dividend remains outstanding as of March 31, 2012.

As at March 31, 2012, a balance of \$247,672 (March 31, 2011 and April 1, 2010 - \$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 (Note 7). The balance is classified as long-term as the related party has agreed not to demand payment before August 2013.

Until March 31, 2003, the Company leased facilities from a company controlled by Targa. Lease arrears, including interest of \$138,647 (2011 - \$129,898; 2010 - \$121,115) owing to this related party, amounted to \$313,621 (2011 - \$304,872; 2010 - \$339,924). In 2003, this related party entered into a forbearance agreement with the Company whereby the Company agreed to repay the amounts owing. The forbearance agreement is now in default. The party has agreed not to demand repayment before August 2013 and the amount is classified as long-term.

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13. DUE TO RELATED PARTIES (Continued)

The Company has a demand loan of up to \$1,800,000 and a revolving line of credit of up to \$1,000,000 with Targa. Under the loan agreements, all amounts advanced to the Company are payable on demand and bear interest at bank prime plus 2%. The Targa Credit Facility is secured by a security interest granted over the assets of the Company. At March 31, 2012, \$800,000, (March 31, 2011 - \$500,000; April 1, 2010 - \$500,000) remained outstanding on the line of credit with accumulated interest of \$132,237, (March 31, 2011 - \$105,570; April 1, 2010 - \$102,937) for a balance of \$932,237. The balance on the revolving demand loan of \$66,581 consists of interest only. Targa has agreed that it will not demand repayment before August 2013 and, accordingly, the amounts are classified as long-term.

Accumulated interest in the amount of \$134,812 (March 31, 2011 and April 1, 2010 - \$134,812), on a loan from Targa remains outstanding as of March 31, 2012. The party has agreed not to demand repayment before August 2013 and, accordingly, the amount is classified as long-term.

14. TRADE AND OTHER PAYABLES

Trade and other payables are comprised of the following:

	March 31, 2012	March 31, 2011	April 1, 2010
Accounts payable	\$ 555,131	\$ 472,954	\$ 512,146
Accrued liabilities	437,988	359,801	371,086
Salaries and benefits payable	284,825	252,954	195,270
	\$ 1,277,945	\$ 1,085,709	\$ 1,078,502

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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 2012, the accrued and unpaid dividends on the Class A preferred shares were \$5,430,500.

Issued

Common shares	12,925,253
Class A Preferred shares	18,325

On July 14, 2011, the Board of Directors of the Company approved a reduction to the stated capital account of \$97,844,650 (the "Stated Capital Reduction Amount"). At the Company's Annual General Meeting held on September 15, 2011, the shareholders of the Company voted in favour of the Stated Capital Reduction. The effect of the reduction was to reduce the stated capital and the accumulated deficit of the Company by the same amount. The accumulated deficit of the Company represents primarily the Company's business prior to the completion of the merger with Hypernetics and Triodetic and is not reflective of the post-merger business of the Company.

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.

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15. SHARE CAPITAL (Continued)

Activity in the stock option plan is summarized as follows:

	<u>Number of Options</u>	<u>Option Price</u>	<u>Weighted Average Option Price</u>
Options outstanding April 1, 2010	570,000	\$0.12 - \$0.80	\$0.13
Expired during fiscal 2011	<u>(10,000)</u>	<u>\$0.80</u>	<u>\$0.80</u>
Options outstanding March 31, 2011 and 2012	<u>560,000</u>	<u>\$0.12</u>	<u>\$0.12</u>

Additional information regarding options outstanding as of March 31, 2012 is as follows:

<u>Options Outstanding and Exercisable</u>			
<u>Exercise Price</u>	<u>Number Outstanding</u>	<u>Weighted Average Remaining Contractual Life (Years)</u>	<u>Weighted Average Exercise Price</u>
<u>\$0.12</u>	<u>560,000</u>	<u>1.4</u>	<u>\$0.12</u>

As of March 31, 2012, 560,000 options are vested and exercisable at \$0.12 and have a weighted average contractual life of 1.4 years.

The stock-based compensation expense of \$1,621 (2011 - \$3,393) is included in finance and administration expenses and was determined using the fair value method. This was calculated using a Black-Scholes option pricing model using the following assumptions: expected dividend yield - NIL%; expected volatility - 133%; risk-free interest rate - 3.75%; and expected life - five years.

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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:

	<u>March 31, 2012</u>	<u>March 31, 2011</u>	<u>April 1, 2010</u>
Net (loss) income	\$ (631,833)	\$ 313,295	\$ (1,293,501)
Cumulative dividends on preferred shares	<u>(1,466,000)</u>	<u>(1,466,000)</u>	<u>(1,466,000)</u>
Net loss attributable to common shares (basic and diluted)	<u>\$ (2,097,833)</u>	<u>\$ (1,152,705)</u>	<u>\$ (2,759,501)</u>
Basic and diluted weighted average shares outstanding	<u>12,925,253</u>	<u>12,925,253</u>	<u>12,824,752</u>

For the years ended March 31, 2012 and 2011, diluted earnings per share equals basic earnings per share due to the anti-dilutive effect of options and convertible instruments.

	<u>2012</u>	<u>2011</u>
Stock options	560,000	560,000
Convertible debentures	<u>229,935</u>	<u>229,935</u>
Total	<u>789,935</u>	<u>789,935</u>

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 income. No other expenses or assets are attributable to this segment.

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17. BUSINESS SEGMENT INFORMATION (Continued)

The Company determines the geographic location of revenues based on the location of its customers. All of the Company's assets are primarily located in Canada.

Revenue by division

	<u>2012</u>	<u>2011</u>
Electronics	\$ 4,072,801	\$ 3,197,801
Specialty structures	<u>8,567,740</u>	<u>7,842,754</u>
Total revenue	<u>\$ 12,640,541</u>	<u>\$ 11,040,555</u>

Net (loss) / income before taxes by division

	<u>2012</u>	<u>2011</u>
Electronics	501,121	\$ (8,053)
Specialty structures	<u>\$ (1,199,093)</u>	<u>341,433</u>
Total (loss) earnings	<u>\$ (697,972)</u>	<u>\$ 333,380</u>

Revenue by geographical location

	<u>2012</u>	<u>2011</u>
Canada	\$ 4,866,112	\$ 5,167,776
United States	5,358,416	4,085,222
Russia	2,097,987	-
Other	263,932	586,290
Chile	<u>54,094</u>	<u>1,201,267</u>
Total Revenue	<u>\$ 12,640,541</u>	<u>\$ 11,040,555</u>

The product revenue concentration (customers with revenues in excess of 10% of total revenues)

	<u>2012</u>	<u>2011</u>
Number of customers	2	3
% of total revenue	15%, 17%	17%, 17%, 11%

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17. BUSINESS SEGMENT INFORMATION (Continued)

Assets by division

	<u>March 31, 2012</u>	<u>March 31, 2011</u>	<u>April 1, 2010</u>
Electronics	\$ 6,075,530	\$ 4,525,537	\$ 5,615,020
Specialty structures	6,657,695	4,447,567	3,136,531
	<u>\$ 12,733,225</u>	<u>\$ 8,973,104</u>	<u>\$ 8,751,551</u>

18. INCOME TAXES

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

	<u>March 31, 2012</u>	<u>March 31, 2011</u>	<u>April 1, 2010</u>
Accounting depreciation in excess of tax	\$ 1,747,000	\$ 1,668,000	\$ 1,760,000
Research and development expenses not deducted for tax purposes	5,622,000	5,565,000	5,616,000
Losses available to offset future income taxes	846,000	900,000	870,000
	<u>\$ 8,215,000</u>	<u>\$ 8,123,000</u>	<u>\$ 8,246,000</u>

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 \$20,739,000 (2011 - \$20,678,000) for Canadian federal and provincial tax purposes. These are available without expiry to reduce future years' taxable income.

The Company used \$84,070 in deferred tax assets that were previously unrecognized.

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18. INCOME TAXES (Continued)

At March 31, 2012, the Company has approximately \$612,000 (2011 - \$596,000) 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
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	\$ 612,000

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

	<u>2012</u>	<u>2011</u>
Net income (loss) before income taxes	\$ (697,972)	\$ 333,380
Canadian statutory rate	27.79%	29.25%
Expected income tax expense (recovery)	(193,978)	96,680
Changes in unrealized deferred tax assets	(60,298)	(111,777)
Permanent differences	152,380	75,789
Foreign taxes	-	(2,326)
Asset on benefit of current loss of subsidiary not recorded	36,026	5,634
Other	(269)	43,915
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Income tax expense (recovery)	\$ (66,139)	\$ 20,085

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18. INCOME TAXES (Continued)

The Company has losses available to reduce future years' Canadian federal taxable income totaling approximately \$3,389,000. These potential benefits expire as follows:

2014	\$ 783,000
2026	27,000
2027	85,000
2028	206,000
2030	1,954,000
2031	318,000
2032	16,000
	<hr/>
	\$ 3,389,000

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 two operating leases that expires February 2013 and October 2015. Future minimum payments due in each of the next four years, and in aggregate, under the operating leases are as follows:

2013	\$ 88,781
2014	48,781
2015	231,081
2016	258,252
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	\$ 626,895

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19. GUARANTEES, COMMITMENTS AND CONTINGENCIES (Continued)

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, 2012:

Payments due by period

	Total	Current	2014	2015	2016	2017	Thereafter
Due to related parties -							
convertible debentures	\$ 247,671	\$ -	\$ 247,671	\$ -	\$ -	\$ -	\$ -
Due to related parties -							
other	3,510,497	-	3,510,497	-	-	-	-
Due to related parties -							
line of credit	932,237	-	932,237	-	-	-	-
Due to related parties -							
demand loan	66,581	-	66,581	-	-	-	-
Note payable	1,500,000	750,000	750,000	-	-	-	-
Due to related parties -							
lease payments	905,918	96,781	96,781	462,069	250,287	-	-
Long-term debt	2,947,899	999,263	825,608	170,608	170,608	149,487	632,325
	\$ 10,110,803	\$ 1,846,044	\$ 6,429,375	\$ 632,677	\$ 420,895	\$ 149,487	\$ 632,325

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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.

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20. FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (Continued)

(a) 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, 2012, the Company had cash consisting of cash on hand and deposits with banks of \$680,000 (March 31, 2011 - \$371,471; April 1, 2010 - \$1,401,678). During the years ended March 31, 2012 and 2011, 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.

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20. FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (Continued)

(a) Credit risk (Continued)

Accounts receivable (Continued)

Maximum credit risk is limited to the balance in cash, trade receivables and unbilled revenue totalling \$2,638,290 (March 31, 2011 - \$2,836,655; April 1, 2010 - \$3,453,814). As of March 31, 2012, trade receivables were comprised of three companies totalling 18%, 17% and 17%, respectively (March 31, 2011 - 23%, 23% and 15%; April 1, 2010 - 34%, 22% and 11%, respectively) of trade receivables. As at March 31, 2012, the Company's ageing of accounts receivable was approximately 97% (March 31, 2011 - 87%; April 1, 2010 - 83%) under sixty days, 1% (March 31, 2011 - 2%; April 1, 2010 - 2%) over 60 - 90 days and 2% (March 31, 2011 - 11%; April 1, 2010 - 15%) over 90 days and the allowance for doubtful accounts was \$NIL (March 31, 2011 - \$10,125; April 1, 2010 - \$NIL).

(b) 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 \$7,704,883. 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 \$77,049 change in annual interest expense. The Company does not use derivative instruments to reduce its exposure to interest rate fluctuations.

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20. FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (Continued)

(b) Market risk (Continued)

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, 2012, the Company had a foreign exchange gain of \$14,464 (March 31, 2011 - loss of \$46,309). 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 \$206,711 and \$112,481 for the fiscal years ended March 31, 2012 and 2011, respectively.

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

	March 31, 2012	March 31, 2011	April 1, 2010
Cash	\$ 208,755	\$ 75,977	\$ 515,754
Trade receivables	893,866	598,072	620,363
Unbilled revenue	24,011	35,161	-
Accounts payable and accrued liabilities	(183,131)	(790)	(35,800)
Deferred revenue	(75,607)	(336,718)	(396,690)
Note payable	(1,500,000)	-	-
Long-term debt	(1,435,000)	-	-
	\$ (2,067,106)	\$ 371,702	\$ 703,627

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20. FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (Continued)

(c) 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, 2012, 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 22).

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.

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:

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21. RELATED PARTIES (Continued)

	<u>2012</u>	<u>2011</u>
Short-term employee benefits	\$ 460,000	\$ 460,000
Post-employment benefits	-	-
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
	<u>\$ 460,000</u>	<u>\$ 460,000</u>

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, 2012, the Company incurred interest expense of \$198,302 (2011 - \$123,814) which is primarily interest on related party balances as described in Notes 9 and 13.

On March 31, 2012, the Company's senior officers agreed to defer payment of consulting fees and salaries payable to August 2013. During fiscal 2012, a portion of these fees and salaries, amounting to \$103,950 (year ended March 31, 2011 - \$102,100), was paid to the senior officers. At March 31, 2012, these outstanding fees and salaries to senior officers of the Company, who are also majority shareholders of Targa, amounted to \$2,373,765 (March 31, 2011 - \$2,126,050; April 1, 2010 - \$1,878,335), plus interest charges of \$688,298 (March 31, 2011 - \$574,837; April 1, 2010 - \$478,026) for a total payable of \$3,062,063 (March 31, 2011 - \$2,700,887; April 1, 2010 - \$2,356,361). These amounts are included in due to related parties - other.

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 capital, which totals \$1,432,410 (March 31, 2011 - \$2,262,622; April 1, 2010 - \$2,145,934) at year-end.

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22. CAPITAL MANAGEMENT (Continued)

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 covenant to which the bank has provided forbearance and will not demand repayment before April 1, 2013. The bank expects the Company to be onside on their covenant by March 31, 2013 (Note 9).

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, 2012 compared to the year ended March 31, 2011.

23. SUBSEQUENT EVENTS

In June 2012, Summit Aerospace USA Inc. purchased a Deckel Maho DMU 80 P duoBlock Universal Milling Machine, for approximately \$700,000 allowing the Company to expand their current roster of jet engine parts.