Consolidated Financial Statements of

PLAINTREE SYSTEMS INC.

March 31, 2013 and 2012
(in Canadian dollars)

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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, 2013 and March 31, 2012 and the consolidated statements of comprehensive income (loss), the consolidated statements of cash flows and the consolidated statements of changes in equity 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 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.

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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, 2013 and March 31, 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants

July 11, 2013

PLAINTREE SYSTEMS INC.
Consolidated Financial Statements
March 31, 2013 and March 31, 2012
(In Canadian dollars)

PLAINTREE SYSTEMS INC.
Consolidated Statements of Financial Position
as at March 31, 2013 and March 31, 2012
(in Canadian dollars)

	2013	2012
Current assets		
Cash and cash equivalents	**$ 145,760**	$ 680,000
Trade receivables and other receivables	**1,751,364**	1,816,301
Unbilled revenue	**1,024,553**	141,989
Inventories (Note 5)	**1,346,334**	1,723,292
Other assets	**149,100**	164,705
Due from related party (Note 9)	**1,510,345**	1,284,665
Asset held for sale (Note 6)	**1,165,702**	1,165,702
	7,093,158	6,976,654
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PROPERTY, PLANT AND EQUIPMENT (Note 11)	**4,364,613**	3,985,150
NOTE RECEIVABLE (Note 7)	**446,509**	446,509
INTANGIBLE ASSETS (Note 10)	**1,182,903**	1,324,912
	$ 13,087,183	$ 12,733,225
Current liabilities		
Trade and other payables (Note 13)	**$ 1,831,967**	$ 1,337,945
Deferred revenue	**474,996**	462,877
Note payable (Note 4)	**762,000**	750,000
Deferred gain on sale of property, plant and equipment (Note 7)	**-**	59,022
Current portion of long-term debt (Note 8)	**3,285,478**	2,947,897
	6,354,441	5,557,741
DUE TO RELATED PARTIES (Note 12)	**4,927,046**	4,756,986
DEFERRED GAIN ON SALE OF PROPERTY, PLANT AND EQUIPMENT (Note 7)	**-**	236,088
NOTE PAYABLE (Note 4)	**-**	750,000
	11,281,487	11,300,815
Shareholders' equity		
Issued capital (Note 14)	**2**	2
Equity	**1,805,694**	1,432,408
	1,805,696	1,432,410
	$ 13,087,183	$ 12,733,225

See accompanying notes to the consolidated financial statements.

APPROVED BY THE BOARD

"David Watson"

"Girvan Patterson"

PLAINTREE SYSTEMS INC.
Consolidated Statements of Comprehensive Income (Loss)
years ended March 31, 2013 and March 31, 2012
(in Canadian dollars)

	2013	2012
Revenue	**$ 13,790,759**	$ 12,640,541
Cost of sales	**10,458,258**	9,607,003
Gross margin	**3,332,501**	3,033,538
Operating expenses		
Research and development	**1,313,805**	1,596,797
Finance and administration	**1,164,260**	1,022,400
Sales and marketing	**544,527**	695,383
Bad debt	**2,377**	233,092
Interest expense	**170,802**	198,302
Gain on sale of property, plant and equipment	**(278,170)**	-
Loss (gain) on foreign exchange	**22,614**	(14,464)
	2,940,215	3,731,510
Net income (loss) before income taxes	**392,286**	(697,972)
Current income tax expense (Note 17)	**19,000**	17,931
Deferred income tax expense (recovery)	**-**	(84,070)
	19,000	(66,139)
Net income (loss) and comprehensive income (loss)	**$ 373,286**	$ (631,833)
Basic and diluted loss per share (Note 15)	**$ (0.09)**	$ (0.16)
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

years ended March 31, 2013 and March 31, 2012
(in Canadian dollars)

		2013		2012
Cash flows from operating activities				
Net income (loss)	**$**	**373,286**	$	(631,833)
Add (deduct) items not affecting cash				
Write-down of inventories		**202,632**		273,359
Deferred income taxes		**-**		(84,070)
Depreciation of intangible assets		**142,009**		39,695
Depreciation of property, plant and equipment		**595,422**		328,754
Gain on sale of property, plant and equipment		**(278,170)**		-
Stock-based compensation expense		**-**		1,621
		1,035,179		(72,474)
Movements in non-cash working capital items				
(Increase) decease in trade and other receivables		**64,937**		138,229
(Increase) decrease in unbilled revenue		**(882,564)**		364,665
Decrease (increase) in inventories		**174,326**		(635,633)
(Increase) in notes receivable		**-**		(446,509)
Decrease in other assets		**15,605**		21,921
(Decrease) in due from related parties		**(244,680)**		(181,895)
Increase in trade and other payables		**494,022**		192,237
(Decrease) increase in deferred revenue		**12,119**		116,149
		668,943		(503,310)
Interest paid on related party debt		**164,979**		148,876
Net cash provided by (used in) operating activities		**833,922**		(354,434)
Cash flows from investing activities				
Payments to acquire property, plant and equipment		**(349,425)**		(424,907)
Payments to acquire intangible assets		**-**		(7,990)
Proceeds from disposal of property, plant and equipment		**19,000**		457,898
Net cash (used in) provided by investing activiites		**(330,425)**		25,001
Cash flows from financing activities				
Borrowings to acquire financial assets		**-**		499,500
Repayment of long-term debt		**(1,054,518)**		(259,253)
Proceeds from long-term debt		**749,700**		-
Repayment of note payable		**(738,000)**		-
(Repayment) increase of borrowings - related party		**5,081**		547,714
Dividends paid on redemable cumulative preference shares		**-**		(150,000)
Net cash (used in) provided by financing activities		**(1,037,737)**		637,961
Net cash (outflow) inflow		**(534,240)**		308,529
Cash and cash equivalents, beginning of the year	**$**	**680,000**	$	371,471
Cash and cash equivalents, end of year	**$**	**145,760**	$	680,000

See accompanying notes to the consolidated financial statements.

Non-cash transactions:

Excluded from the consolidated statements of cash flows in fiscal 2013 is $642,398 (2012 - $Nil) that was used to finance property, plant and equipment purchases.

PLAINTREE SYSTEMS INC.
Consolidated Statement of changes in equity
years ended March 31, 2013 and March 31, 2012
(in Canadian dollars)

	Common Shares Number	Issued Capital	Preferred Shares [1] Number	Issued Capital	Equity (Deficit)	Share-based reserve	Shareholders' Equity
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 14)	-	(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
Net income	-	-	-	-	373,286	-	373,286
Balances at March 31, 2013	**12,925,253**	**$ 1**	**18,325**	**$ 1**	**$ 1,805,694**	**$ -**	**$ 1,805,696**

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 $1,000 per share plus accrued dividends; non-voting.

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 under the stock symbol "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 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, aluminium and stainless steel specialty structures such as commercial domes, free form structures, barrel vaults, space frames and industrial dome coverings. On February 6, 2012, Plaintree purchased the assets of Summit Tool Corporation, located in Pocono Summit, Pennsylvania. This company continued in its existing location as Summit Aerospace USA Inc. a wholly-owned subsidiary of Plaintree and specializes in the high end machining of super-alloys for the aircraft and helicopter markets. 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 11, 2013.

(b) Basis of Measurement

These consolidated financial statements have been prepared on an historical cost basis except for share-based compensation and the asset held for sale, which are both 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). 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 polices adopted by the Company. All inter-company transactions have been eliminated.

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 for finished goods and work in process represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale and net realizable value for raw materials is based on replacement cost. Inventory write downs are provided for if inventory has not moved in a year unless the Company has orders or a realistic expectation of orders for those parts. Inventory reversals are recorded when inventory previously written off is sold.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any 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	Lesser of useful life and 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

Impairment of assets

Long-lived assets, including property, plant and equipment and intangible assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue on fixed-price contracts is recognized based on the estimated percentage-of-completion of services rendered that reflects the extent of work accomplished. Revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

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. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Non-current assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Company's accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

Critical accounting estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical accounting estimates and judgements (Continued)

Revenue recognition

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

Revenue for fixed price contracts based on the estimated percentage-of-completion of services rendered reflects management's estimates of the percentage-of-completion at each period-end. This method requires management to estimate total costs and profits over the entire term of the contract.

Purchase price allocation

During fiscal 2012, 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.

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.

Impairment of trade receivables

Management determines the estimated recoverability of trade receivables based on the evaluation and aging 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical accounting estimates and judgements (Continued)

Inventory obsolescence

Management reviews the condition of inventories at the end of each reporting period and recognises a provision for slow-moving and obsolete items of inventory when they are no longer suitable for use or sale. Management's estimate of the net realizable value of such inventories is based primarily on sales prices in the forward order book and current market conditions.

Assets held for sale

Management determines the estimated fair value of the assets held for sale based on, among other things, the listing price and comparable sales in the area.

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, but the secondary indictors are primarily Canadian, the indicators as a whole have been judged to indicate the Canadian dollar is the functional currency of the parent company and its subsidiaries.

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.

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.

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.

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")

IFRS 9, *Financial Instruments* ("IFRS 9"), was issued by the International Accounting Standards Board ("IASB") in November 2009 and October 2010 and will replace 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. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held-for-trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative hosts not within the scope of the standard. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011)

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

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 other entities. IFRS 10 replaces the consolidation requirements in SIC-12 *Consolidation - Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements*. IFRS 11 *Joint Arrangements* ("IFRS 11") establishes principles for financial reporting by parties to a joint arrangement. IFRS 11 supersedes current IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. IFRS 12 - *Disclosure of Interests in Other Entities* ("IFRS 12") applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

Amendments to IFRS 7 and IAS 32 Offsetting Financial Assets and Financial Liabilities and the related disclosures

The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of ‘currently has a legally enforceable right of set-off’ and ‘simultaneous realisation and settlement’. The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to IAS 32 are not effective until annual periods beginning on or after January 1, 2014, with retrospective application required. The Company is evaluating the impact of the amendments on its consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

<u>*New and revised IFRS in issue but not effective*</u> *(Continued)*

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 July 1, 2012, with earlier application permitted. The Company is evaluating the impact of the amendments to IAS 1 on its consolidated financial statements.

4. ACQUISITION OF SUMMIT TOOL CORP.

On February 6, 2012, Plaintree Systems Inc. completed its acquisition of the business and assets of Summit Tool Corporation ("Summit Tool").

The purchase price for the acquisition was US$3 million with $1.5 million paid on closing and the balance to be payable in three tranches, all of which are unsecured and non-interest bearing, as follows:

(i) US$375,000 paid on August 6, 2012;
(ii) US$375,000 paid on February 6, 2013; and
(ii) US$750,000 due on August 6, 2013. The remaining US$750,000 (CDN $762,000) balance is classified as a current note payable.

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

(in Canadian dollars)

4. ACQUISITION OF SUMMIT TOOL CORP. (Continued)

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

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

The Company acquired all of the assets of Summit Tool. In addition, Summit Aerospace Inc. entered into a lease arrangement with Summit Tool to continue to use the company's former premises for a one year period. All of the former employees of Summit Tool have agreed to remain employed in the business with Summit Aerospace Inc.

The newly acquired business continues to be operated in Pennsylvania by Summit Aerospace USA Inc.

5. INVENTORIES

		2013		2012
Raw materials	**$**	**373,909**	$	619,156
Work in process		**675,822**		791,252
Finished goods		**296,603**		312,884
	$	**1,346,334**	$	1,723,292

The cost of inventories recognized as an expense during the year was $10,354,760 (2012 - $9,386,533). The total carrying value of inventory at March 31, 2013 was pledged as security through general security agreements under bank lines of credit and related party liabilities (Notes 8 and 12).

5. INVENTORIES

The Company wrote down its inventories by $202,632 in fiscal 2013 (2012 - $273,359) to reflect where the carrying amount exceeded net realizable value. An amount of $151,591 (2012 - $219,162) in inventories that was previously written off was reversed due to the fact that its net realizable value increased.

6. ASSET HELD FOR SALE

The asset held for sale as of March 31, 2013 and 2012, consist of a manufacturing property owned by the Company that is available for sale. Plaintree signed a lease on a 135,000 sq. ft. building in Arnprior 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, Plaintree's Chief Executive Officer ("CEO") and subsequently the Company took steps to sell its one remaining building. The asset is recorded at the lower of carrying value and fair value less estimated selling costs. The property has mortgage loans totalling $531,146 (Note 8) that would need to be satisfied at the time of sale of the property.

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 with interest only payments in the first 12 months, at prime plus 2% per annum. The gain on the sale of $295,110 was recognized in the 2013 fiscal year.

(in Canadian dollars)

8. LONG-TERM DEBT

	2013	2012
Bank loan, repaid in fiscal 2013.	**$ -**	$ 48,655
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 October 2027. (Note 6)	**372,785**	406,791
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.	**104,282**	110,549
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.	**88,910**	96,838
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.	**351,873**	384,637
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.	**310,312**	276,550
Demand non-revolving loan payable in monthly installments of US$65,000, interest at LIBOR plus 3% per annum, maturing January 2016.	**1,427,480**	1,435,000
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.	**471,475**	-
Balance carry forward	**3,127,117**	2,759,020

(in Canadian dollars)

8. LONG-TERM DEBT (Continued)

	2013	2012
Balance carried forward	**$ 3,127,117**	$ 2,759,020
Term non-revolving loan payable in monthly installments of $3,161, bearing interest at the rate of prime plus 1.25% per annum, maturing September 2018. (Note 6)	**158,361**	188,877
Current portion	**$ 3,285,478**	$ 2,947,897

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

2014	**$ 1,129,458**
2015	**996,938**
2016	**349,458**
2017	**345,462**
2018	**151,657**
Thereafter	**312,506**
	$ 3,285,478

As of March 31, 2013, the Company was in breach of the debt service coverage ratio which was required to be maintained at a minimum of 125% as well as the current assets to current liabilities ratio of 1.25:1. Debt service coverage ratio is determined by dividing earnings before interest, taxes, depreciation and amortization by the annual payments of principal and interest.

As a result of the covenant breaches, the long-term debt has been reclassified to current. The one bank, which carries all the long-term debt, has waived the covenant requirements to April 1, 2014 and has continued to provide funding under the terms of the facility.

9. DUE FROM RELATED PARTY

Due from related party consists of $1,510,345 (2012 - $1,284,665) due from Spotton Corporation, a company controlled by Targa Group Inc. ("Targa"). The balance accrues interest at prime plus 2% and is due from the related party on demand. The $225,680 change in the balance from fiscal 2012 relates to rent of $42,000 (2012 - $42,000) and utilities charges, advances and related interest.

(in Canadian dollars)

10. INTANGIBLES

	Balance at April 1, 2012	Additions	Balance at March 31, 2013
Cost			
Customer relationship	**$ 1,303,270**	**$ -**	**$ 1,303,270**
Non-competition agreement	**10,000**	**-**	**10,000**
Computer software	**174,081**	**-**	**174,081**
Total	**$ 1,487,351**	**$ -**	**$ 1,487,351**

	Balance at April 1, 2011	Additions	Balance at March 31, 2012
Cost			
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

	Balance at April 1, 2012	Additions	Balance at March 31, 2013
Accumulated depreciation			
Customer relationship	**$ -**	**$ 130,327**	**$ 130,327**
Non-competition agreement	**-**	**1,539**	**1,539**
Computer software	**162,439**	**10,143**	**172,582**
Total	**$ 162,439**	**$ 142,009**	**$ 304,448**

	Balance at April 1, 2011	Additions	Balance at March 31, 2012
Accumulated depreciation			
Customer relationship	$ -	$ -	$ -
Non-competition agreement	-	-	-
Computer software	122,744	39,695	162,439
Total	$ 122,744	$ 39,695	$ 162,439

(in Canadian dollars)

10. INTANGIBLES

	2013	2012
Carrying Amount		
Customer relationship	**$ 1,172,943**	$ 1,303,270
Non-competition agreement	**8,461**	10,000
Computer software	**1,499**	11,642
Total	**$ 1,182,903**	$ 1,324,912

The depreciation on intangible assets is included in finance and administration expenses in the consolidated statement of comprehensive income (loss).

11. PROPERTY, PLANT AND EQUIPMENT

	Factory Equipment	Computer Equipment	Furniture	Vehicles	Leasehold Improvments	Building	Land	Total
Cost, balance								
March 31, 2011	$ 3,241,741	$ 998,075	$ 194,444	$ 115,376	$ 664,297	$ 151,000	$ 50,000	$ 5,414,933
Additons	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
Additions	919,070	11,310	2,625	58,820	-	-	-	991,825
Disposals	(53,161)	(62,072)	-	(22,000)	-	-	-	(137,233)
March 31, 2013	**$ 6,067,343**	**$ 949,362**	**$ 197,069**	**$ 184,724**	**$ 846,334**	**$ 151,000**	**$ 50,000**	**$ 8,445,832**

	Factory Equipment	Computer Equipment	Furniture	Vehicles	Leasehold Improvments	Building	Land	Total
Accumulated depreciation, balance								
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	-	-	-	-	20,792	-	-	20,792
March 31, 2012	(2,277,784)	(964,239)	(169,794)	(78,563)	(77,037)	(36,673)	-	(3,606,090)
Depreciation	(390,183)	38,805	(4,516)	(28,681)	(83,004)	(7,550)	-	(475,129)
March 31, 2013	**$ (2,667,967)**	**$ (925,434)**	**$ (174,310)**	**$ (107,244)**	**$ (160,041)**	**$ (44,223)**	**$ -**	**$ (4,081,219)**

	Factory Equipment	Computer Equipment	Furniture	Vehicles	Leasehold Improvments	Building	Land	Total
Carrying amount, as at								
March 31, 2012	$ 2,923,650	$ 35,885	$ 24,650	$ 69,341	$ 769,297	$ 114,327	$ 50,000	$ 3,985,150
March 31, 2013	**$ 3,399,376**	**$ 23,928**	**$ 22,759**	**$ 77,480**	**$ 684,293**	**$ 106,777**	**$ 50,000**	**$ 4,364,613**

(in Canadian dollars)

12. DUE TO RELATED PARTIES

	2013	2012
Due to senior officers	**$ 3,392,540**	$ 3,062,063
Dividends payable	**60,000**	60,000
Due to Targa Group Inc., convertible debentures	**247,672**	247,672
Due to Tidal Quality Management Inc.	**322,370**	313,621
Due to Targa Group Inc., line of credit	**763,070**	932,237
Due to Targa Group Inc., demand loan	**66,581**	66,581
Due to Targa Group Inc., loan interest	**134,813**	134,813
	4,987,046	4,816,986
Less: current portion	**(60,000)**	(60,000)
	$ 4,927,046	$ 4,756,986

As at March 31, 2013, a balance of $3,392,540 ($2,578,846 principal and $813,694 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 2014.

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 (2012 - $60,000) of the dividend remains outstanding as of March 31, 2013 and is included in trade and other payables.

As at March 31, 2013, a balance of $247,672 (2012 - $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 2014.

Until March 31, 2013, the Company leased facilities from a company controlled by Targa. Lease arrears, including interest of $147,396 (2012 - $138,647) owing to this related party, amounted to $322,370 (2012 - $313,621). 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 2014 and the amount is classified as long-term.

(in Canadian dollars)

12. DUE TO RELATED PARTIES (Continued)

The Company has a demand loan of up to $1,800,000 and a revolving line of credit of up to $1,000,000 with Targa. 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, 2013, $600,000, (2012 - $800,000) remained outstanding on the line of credit with accumulated interest of $163,070 (2012 - $132,237) for a balance of $763,070 (2012 - $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 2014 and, accordingly, the amounts are classified as long-term.

Accumulated interest in the amount of $134,812 (2012 - $134,812), on a loan from Targa remains outstanding as of March 31, 2013. The party has agreed not to demand repayment before August 2014 and, accordingly, the amount is classified as long-term.

13. TRADE AND OTHER PAYABLES

Trade and other payables are comprised of the following:

		2013		2012
Accounts payable	**$**	**1,217,898**	$	555,131
Accrued liabilities		**359,917**		497,988
Salaries and benefits payable		**254,152**		284,825
	$	**1,831,967**	$	1,337,945

14. SHARE CAPITAL

Authorized
Unlimited number of common shares
Unlimited number of Class A preferred shares

Class A 8% cumulative dividend, calculated on redemption amount, redeemable at the option of the Company at any time at $1,000 per share plus accrued dividends; liquidation preference of the redemption value plus cumulative dividends (when and if declared) to common shares; non-voting. As at March 31 2013, the accrued and unpaid dividends on the Class A preferred shares were $6,896,500.

(in Canadian dollars)

14. SHARE CAPITAL (Continued)

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 Amount. 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.

Activity in the stock option plan is summarized as follows:

	Number of Options	Option Price	Weighted Average Option Price
Options outstanding March 31, 2013 and 2012	**560,000**	**$0.12**	**$0.12**

(in Canadian dollars)

14. SHARE CAPITAL (Continued)

Additional information regarding options outstanding as of March 31, 2013 is as follows:

	Options Outstanding and Exercisable		
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
$0.12	**560,000**	**0.4**	**$0.12**

The stock-based compensation expense of $NIL (2012 - $1,621) 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.

15. BASIC AND DILUTED EARNINGS PER COMMON SHARE

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

	2013	2012
Net income (loss)	**$ 373,286**	$ (631,833)
Cumulative dividends on preferred shares	**(1,466,000)**	(1,466,000)
Net loss attributable to common shares (basic and diluted)	**$ (1,092,714)**	$ (2,097,833)
Basic and diluted weighted average shares outstanding	**12,925,253**	12,925,253

For the years ended March 31, 2013 and 2012, diluted earnings per share equals basic earnings per share due to the anti-dilutive effect of options and convertible instruments.

	2013	2012
Stock options	**560,000**	560,000
Convertible debentures	**229,935**	229,935
Total	**789,935**	789,935

(in Canadian dollars)

16. BUSINESS SEGMENT INFORMATION

The Company's chief decision maker, the CEO, tracks the Company's operations as two business segments - the design, development, manufacture, marketing and support of electronic products, and the specialty structural products. From time to time, the Company provides management services primarily to related companies. The revenue and cost of sales related to these services are presented in the statement of 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. All of the Company's assets are primarily located in Canada.

Revenues by division

	2013	2012
Electronics	**$ 6,127,101**	$ 4,072,801
Specialty Structures	**7,663,658**	8,567,740
	$13,790,759	$12,640,541

Net income (loss) before taxes by division

	2013	2012
Electronics	**$ 1,205,829**	$ 501,121
Specialty Structures	**(813,543)**	(1,199,093)
	$ 392,286	$ (697,972)

Revenues by geographical location

	2013	2012
Canada	**$ 7,100,933**	$ 4,866,112
United States	**5,585,664**	5,358,416
Russia	**-**	2,097,987
Other	**1,104,162**	318,026
	$13,790,759	$12,640,541

(in Canadian dollars)

16. BUSINESS SEGMENT INFORMATION (Continued)

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

	2013	2012
Number of customers	**2**	2
% of total revenue	**11%, 16%**	15%, 17%

Assets by division

	2013	2012
Electronics	**$ 10,421,191**	$ 6,075,530
Specialty Structures	**2,665,992**	6,657,695
	$ 13,087,183	$ 12,733,225

17. 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 as 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 has not been recognized, is as follows:

	2013	2012
Accounting depreciation in excess of tax	**$ 1,940,000**	$ 1,747,000
Research and development expenses not deducted for tax purposes	**5,952,000**	5,622,000
Losses available to offset future income taxes	**786,000**	846,000
	$ 8,678,000	$ 8,215,000

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 (2012 - $20,678,000) for Canadian federal and provincial tax purposes. These are available without expiry to reduce future years' taxable income.

(in Canadian dollars)

17. INCOME TAXES (Continued)

At March 31, 2013, the Company has approximately $617,000 (2012 - $612,000) 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 income (loss) differs from the amount computed by applying the Canadian statutory rate to the income (loss) before income taxes for the following reasons:

	2012	2012
Net income (loss) before income taxes	**$ 392,286**	$ (697,972)
Canadian statutory rate	**26.5%**	27.79%
Expected income tax expense (recovery)	**103,956**	(193,978)
Changes in unrealized deferred tax assets	**122,695**	(60,298)
Changes in future tax rates and provision	**(372,848)**	152,380
Permanent differences	**59,902**	152,380
Asset on benefit of current loss of subsidiary not recorded	**101,151**	36,026
Other	**4,144**	(269)
Income tax expense (recovery)	**$ 19,000**	$ (66,139)

The Company has losses available to reduce future years' Canadian federal taxable income totaling approximately $2,952,000. These potential benefits expire as follows:

2030	**$ 1,340,000**
2031	**318,000**
2032	**783,000**
2033	**508,000**
	$ 2,952,000

The Company has US losses of approximately $870,000 which begin to expire in 2030.

(in Canadian dollars)

18. GUARANTEES, COMMITMENTS AND CONTINGENCIES

Guarantees

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

The Company also has a $237,000 letter of guarantee outstanding that is due May 5, 2013 as well as a $133,800US letter of guarantee due May 15, 2013.

Commitments

The Company leases office space under two operating leases that expire September 2013 and October 2017. Future minimum payments due in each of the next four years, and in aggregate, under the operating leases are as follows:

2014	**$ 73,500**
2015	**48,780**
2016	**48,780**
2017	**48,780**
	$ 219,840

Product warranties

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

(in Canadian dollars)

18. GUARANTEES, COMMITMENTS AND CONTINGENCIES (Continued)

Contractual obligations

The following table provides a summary of the Company's obligations outstanding as at March 31, 2013:

Payments due by period

	Total	Current	2015	2016	2017	2018	Thereafter
Due to related parties - convertible debentures	**$ 247,672**		$ 247,672				
Due to related parties - other	**3,909,723**		3,909,723				
Due to related party - line of credit	**763,070**		763,070				
Due to related party - demand loan	**66,581**		66,581				
Note payable	**762,000**	762,000					
Due to related party - lease payments	**219,840**	73,500	48,780	48,780	48,780		
Long-term debt	**3,285,479**	1,129,458	996,938	349,458	345,462	151,657	312,506
	$ 9,254,365	$ 1,964,958	$ 6,032,764	$ 398,238	$ 394,242	$ 151,657	$ 312,506

19. FINANCIAL INSTRUMENTS

Fair value hierarchy

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

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

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

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

19. FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (Continued)

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.

(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, 2013, the Company had cash consisting of cash on hand and deposits with banks of $145,760 (2012 - $680,000). During the years ended March 31, 2013 and 2012, the Company did not hold any investments in asset-backed commercial paper.

19. FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (Continued)

(a) Credit risk (Continued)

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 other receivables and unbilled revenue totalling $2,921,677 (2012 - $2,638,290). As of March 31, 2013, trade receivables were comprised of two companies totalling 26% and 15%, respectively (2012 - 18%, 17% and 17%, respectively) of trade receivables. As at March 31, 2013, the Company's ageing of accounts receivable was approximately 93% (2012 - 97%) under sixty days, 6% (2012 - 1%); over 60 - 90 days and 1% (March 31, 2012 - 2%) over 90 days and the allowance for doubtful accounts was $NIL (2012 - $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 $6,167,923. 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 $61,678 change in annual interest expense. The Company does not use derivative instruments to reduce its exposure to interest rate fluctuations.

19. 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, 2013, the Company had a foreign exchange loss of $22,614 (2012 - gain of $14,464). 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 $133,503 and $206,711 for the fiscal years ended March 31, 2013 and 2012, respectively.

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

	2013	2012
Cash	**$ 209,476**	$ 208,755
Trade receivables	**1,014,730**	893,866
Unbilled revenue	**514,439**	24,011
Trade and other payables	**(248,958)**	(183,131)
Deferred revenue	**(163,763)**	(75,607)
Note payable	**(762,000)**	(1,500,000)
Long-term debt	**(1,898,955)**	(1,435,000)
	$ (1,335,031)	$ (2,067,106)

19. 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, 2013, 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 21).

(d) Fair values

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

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

20. RELATED PARTIES

Key management personnel compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly. The key management personnel of the Company are members of the Company’s executive management team, which include the CEO, CFO and VP-Mergers and Acquisitions and control approximately 34.4% of the outstanding shares of the Company. Compensation provided to key management is as follows:

(in Canadian dollars)

20. RELATED PARTIES (Continued)

	2013	2012
Short-term employee benefits	**$ 460,000**	$ 460,000
Share-based payments	**-**	-
	$ 460,000	$ 460,000

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, 2013, the Company incurred interest expense of $170,802 (2012 - $198,302) which is primarily interest on related party balances as described in Notes 9 and 12.

On March 31, 2013 the Company's senior officers agreed to defer payment of consulting fees and salaries payable to August 2014. During fiscal 2013, a portion of these fees and salaries, amounting to $103,950 (2012 - $103,950), was paid to the senior officers. At March 31, 2013, these outstanding fees and salaries to senior officers of the Company, who are also majority shareholders of Targa, amounted to $2,578,846 (2012 - $2,373,765), plus interest charges of $813,694 (2012 - $688,298) for a total payable of $3,392,540 (2012 - $3,062,063). 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.

21. CAPITAL MANAGEMENT

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, purchase and cancel shares previously issued, return capital to shareholders or sell assets to reduce debt. The Company considers the items included in equity as capital, which totals $1,805,696 (2012 - $1,432,410) at year-end.

21. 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, 2014. The Company expects to have met their covenant requirements by March 31, 2014 (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, 2013 compared to the year ended March 31, 2012.

22. SUBSEQUENT EVENTS

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 Company increased its credit facility with its bankers (HSBC Bank USA) and obtained a short-term loan from a related party for the purposes of financing the $1.1M acquisition. The relocation of Summit Aerospace USA Inc. from its present leased location is expected to be completed by fall 2013.