

Consolidated Financial Statements of

PLAINTREE SYSTEMS INC.

*March 31, 2011 and 2010
(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 balance sheets as March 31, 2011 and 2010 and the consolidated statements of income (loss) and comprehensive income (loss), cash flows and shareholders' equity for each of the two 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 Canadian generally accepted accounting principles, 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, 2011 and 2010, and the results of its operations and its cash flows for each of the two years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte + Touche LLP

Chartered Accountants
Licensed Public Accountants

July 14, 2011

PLAINTREE SYSTEMS INC.
Consolidated Financial Statements
March 31, 2011 and 2010
(In Canadian dollars)

	<u>Page</u>
Consolidated Balance Sheets	1
Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)	2
Consolidated Statements of Cash Flows	3
Consolidated Statements of Shareholders' Equity	4
Notes to the Consolidated Financial Statements	5 - 32

PLAINTREE SYSTEMS INC.

Consolidated Balance Sheets

as at March 31, 2011 and 2010

(in Canadian dollars)

	<u>2011</u>	<u>2010</u>
Current assets		
Cash	\$ 371,471	\$ 1,401,678
Trade accounts receivable, net of allowance for doubtful accounts \$10,442 (2010 - \$NIL)	1,954,530	1,381,245
Unbilled revenue	506,654	670,891
Inventories (Note 3)	1,341,619	1,377,474
Prepaid expenses and other receivables	186,624	160,662
Due from related party (Note 6)	1,102,770	745,720
Assets held for sale (Note 4)	1,349,390	-
	6,813,058	5,737,670
Property, plant and equipment, net (Note 7)	2,116,699	2,967,206
Intangible assets (Note 8)	43,347	46,675
	\$ 8,973,104	\$ 8,751,551
Current liabilities		
Accounts payable and accrued liabilities (Note 10)	\$ 1,085,709	\$ 1,078,502
Deferred revenue	346,728	742,374
Long-term debt - current portion (Note 5)	166,543	180,610
Due to related parties - other - current portion (Note 9)	10,000	-
	1,608,980	2,001,486
Due to related parties (Note 9)	4,060,394	3,748,287
Long-term debt (Note 5)	1,041,107	855,844
	6,710,482	6,605,617
Shareholders' equity		
Share capital (Note 11)		
Class A preferred shares 18,325 outstanding (March 31, 2011 - 18,325)	1	1
Common shares 12,925,253 outstanding; (March 31, 2010 - 12,925,253)	97,844,651	97,844,651
Additional paid in capital	49,421	46,028
Equity component convertible debentures	864,854	864,854
Deficit	(96,496,305)	(96,609,600)
	2,262,622	2,145,934
	\$ 8,973,104	\$ 8,751,551

APPROVED BY THE BOARD:

Jerry Vickers Director

Girvan Patterson Director

PLAINTREE SYSTEMS INC.
Consolidated Statements of Income (Loss) and
Comprehensive Income (Loss)
for the years ended March 31, 2011 and 2010
(in Canadian dollars)

	<u>2011</u>	<u>2010</u>
Revenue		
Product revenue	\$ 11,040,555	\$ 9,087,383
Management services revenue	-	103,490
	11,040,555	9,190,873
Cost of revenue		
Cost of products sold	6,739,805	5,582,938
Cost of services	-	28,034
Write-down of inventories (Note 3)	140,969	701,634
	6,880,774	6,312,606
Gross margin	4,159,781	2,878,267
Operating expenses		
Sales and marketing	630,089	536,286
Finance and administration	1,046,749	1,288,818
Research and development	1,671,625	1,451,471
Interest expense	123,814	129,553
Loss on foreign exchange	46,309	694,718
	3,518,586	4,100,846
Income (loss) from operations	641,195	(1,222,579)
Loss on disposal of assets	(307,815)	(17,343)
Income (loss) before taxes	333,380	(1,239,922)
Income tax expense (Note 17)	20,085	53,579
Net income (loss) and comprehensive income (loss)	\$ 313,295	\$ (1,293,501)
Basic (loss) per share (Note 12)	\$ (0.09)	\$ (0.22)
Diluted (loss) per share (Note 12)	\$ (0.09)	\$ (0.22)
Weighted average common shares outstanding - basic (Note 12)	12,925,253	12,824,752
Weighted average common shares outstanding - diluted (Note 12)	12,925,253	12,824,752

PLAINTREE SYSTEMS INC.
Consolidated Statements of Cash Flows
for the years ended March 31, 2011 and 2010
(in Canadian dollars)

	<u>2011</u>	<u>2010</u>
Operating		
Net income (loss)	\$ 313,295	\$ (1,293,501)
Items not affecting cash:		
Amortization of property, plant and equipment and intangible assets	362,389	345,534
Write-off of inventories	140,969	701,634
Loss on disposal of assets	307,815	17,343
Interest and accretion on convertible debentures	-	3,694
Interest on due to related party - line of credit	2,634	46,284
Interest on due to related party - demand loan	-	8,489
Stock-based compensation expense	3,393	5,796
Changes in non-cash operating working capital (Note 13)	(1,285,434)	1,816,400
	(154,939)	1,651,673
Investing		
Purchases of property, plant and equipment	(1,077,291)	(193,243)
Purchase of intangible assets	(89,981)	(46,596)
Proceeds from disposal of property, plant and equipment	1,333	8,500
	(1,165,939)	(231,339)
Financing		
Increase in long-term debt	316,000	-
Repayment of long-term debt	(144,804)	(144,773)
Increase of related parties - other	309,475	295,897
(Repayment) in due to related parties - line of credit	-	(500,000)
(Decrease) in due to related parties - demand loan	-	(771,509)
Dividends on preferred shares	(190,000)	(350,000)
	290,671	(1,470,385)
NET CASH (OUTFLOW) INFLOW	(1,030,207)	(50,051)
Cash, beginning of year	1,401,678	1,451,729
Cash, end of year	\$ 371,471	\$ 1,401,678
Supplemental information:		
Cash taxes paid	\$ 13,274	\$ 53,886
Cash interest paid	\$ 44,173	\$ 42,159
Cash interest received	\$ 15,428	\$ (10,495)

PLAINTREE SYSTEMS INC.

Consolidated Statements of Shareholders' Equity

as at March 31, 2011 and 2010

(in Canadian dollars)

	Preferred Shares		Common Shares		(Deficit)	Equity Component of Convertible Debentures	Additional Paid- in Capital	Shareholders' Equity
	Number	Amount	Number	Amount				
Balances at March 31, 2009	18,325	\$ 1	12,522,143	\$ 97,586,741	\$ (95,116,099)	\$ 943,061	\$ 40,232	\$ 3,453,936
Convertible debentures converted to share	-	-	403,110	257,910	-	(78,207)	-	179,703
Stock-based compensation expense	-	-	-	-	-	-	5,796	5,796
Net loss - fiscal 2010	-	-	-	-	(1,293,501)	-	-	(1,293,501)
Dividend declared on preferred shares	-	-	-	-	(200,000)	-	-	(200,000)
Balances at March 31, 2010	18,325	1	12,925,253	97,844,651	(96,609,600)	864,854	46,028	2,145,934
Stock-based compensation expense	-	-	-	-	-	-	3,393	3,393
Net income - fiscal 2011	-	-	-	-	313,295	-	-	313,295
Dividend declared on preferred shares	-	-	-	-	(200,000)	-	-	(200,000)
Balances at March 31, 2011	18,325	\$ 1	12,925,253	\$ 97,844,651	\$ (96,496,305)	\$ 864,854	\$ 49,421	\$ 2,262,622

PLAINTREE SYSTEMS INC.

Notes to the Consolidated Financial Statements

years ended March 31, 2011 and 2010
(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. The Company operates an Electronics division (the Hypernetics business and the free space optics business) and a Specialty Structures division (the Triodetic business and a newly formed 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 November 23, 2010, Plaintree announced the creation of its new business, a new wholly-owned subsidiary, Arnprior Fire Trucks Corp. The new business involves the custom build of high-end fire trucks and emergency vehicles to be sold to municipalities with a target market being North America.

In late fiscal 2011, all operations of Plaintree were relocated to a modern 135,000 sq. ft. manufacturing facility located in Arnprior, Ontario, Canada, thirty minutes west of Ottawa, Ontario, Canada.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the following significant accounting policies:

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 assigned to inventories held 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
years ended March 31, 2011 and 2010
(in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are stated at cost. Amortization is provided over the estimated useful lives of the assets using the straight-line method as follows:

Property, plant and equipment:

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

Intangible assets:

Software	2 years
----------	---------

The Company's policy is to review all long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount as an asset may not be recoverable. If events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable, the Company will estimate the future cash flows expected to result from the use of the assets and their eventual disposition and record an impairment of the assets if the carrying amount exceeds the estimated future cash flows.

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.

PLAINTREE SYSTEMS INC.
Notes to the Consolidated Financial Statements
years ended March 31, 2011 and 2010
(in Canadian dollars)

2. 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. 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.

Foreign currency translation

Monetary assets and liabilities, which are denominated in currencies foreign to the local currency of the operation, are translated to the local currency at fiscal year-end exchange rates, and transactions included in the statements of operations are translated at rates prevailing during the fiscal year. 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. subsidiary, which is considered to be an integrated foreign operation, have been translated into Canadian dollars using the temporal method of foreign currency translation. Under this method, monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates for the year. Transaction gains or losses are included in income.

PLAINTREE SYSTEMS INC.
Notes to the Consolidated Financial Statements
years ended March 31, 2011 and 2010
(in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock option plans

The Company has a stock-based compensation plan, which is described in Note 13. The Company uses the fair value based method of accounting to record stock-based payments to employees and non-employees. Under the fair value based method, compensation cost for both employees and non-employees is measured at fair value at the date of grant and is expensed over the award's vesting period. The cost of stock-based payments that are fully vested and non-forfeitable at the grant date is measured and recognized at that date.

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. 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 Canadian GAAP are met, or otherwise, are expensed as incurred. To date, no such costs have been capitalized.

Use of accounting estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods presented. Significant management estimates include percentage completed for revenue recognition, unbilled revenues, deferred revenues and allowance for doubtful accounts, useful lives of property, plant and equipment and intangible assets, inventory obsolescence, stock-based compensation, accrued liabilities, income tax valuation allowance, warranty costs and bifurcation of convertible debentures. Actual results could differ from these estimates.

PLAINTREE SYSTEMS INC.
Notes to the Consolidated Financial Statements
years ended March 31, 2011 and 2010
(in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes

The Company's future 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. Future income tax assets and liabilities are measured using enacted or substantively enacted rates expected to apply to taxable income in the years in which those temporary differences are expected to be reversed or be settled to the extent that such assets are more likely than not to be realized. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period of enactment or substantive enactment. Future income tax assets are recognized to the extent it is more likely than not to be realized.

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 year. 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

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose, for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments. Settlement date accounting is used.

Held-for-trading

Held-for-trading financial assets are financial assets typically acquired for resale prior to maturity or that are designated as held-for-trading. They are measured at fair value at the balance sheets date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in other income.

PLAINTREE SYSTEMS INC.
Notes to the Consolidated Financial Statements
years ended March 31, 2011 and 2010
(in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Held-for-trading (Continued)

Financial liabilities designated as held-for-trading are those non-derivative financial liabilities that the Company elects to designate on initial recognition as instruments that it will measure at fair value through other interest expense. These are accounted for in the same manner as held-for-trading assets. The Company has not designated any non-derivative financial liabilities as held-for-trading.

Held-to-maturity

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables, that an entity has the positive intention and ability to hold to maturity. These financial assets are measured at amortized cost using the effective interest rate method.

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 accumulated 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 accounted for at amortized cost using the effective interest rate method.

Other liabilities

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

PLAINTREE SYSTEMS INC.
Notes to the Consolidated Financial Statements
years ended March 31, 2011 and 2010
(in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Transaction costs

Transaction costs related to held-for-trading financial assets are expensed as incurred. Transaction costs related to available-for-sale financial assets, held-to-maturity financial assets, other liabilities and loans and receivables are netted against the carrying value of the asset or liability and are then recognized over the expected life of the instrument using the effective interest rate method.

The Company has made the following classifications:

Cash is required to be classified as held-for-trading and is measured at fair value with changes in fair value recorded in net income. The carrying amount approximates fair value.

Trade accounts receivable are required to be classified as loans and receivables and accounts payable and accrued liabilities are required to be 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.

New accounting policies

Future accounting changes

International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board has confirmed that the use of IFRS will be required commencing 2011 for publicly accountable, profit oriented enterprises. IFRS will be replacing current Canadian GAAP followed by the Company. The Company will be required to begin reporting under IFRS for its first fiscal year beginning after April 1, 2011 and will be required to provide information that conforms to IFRS for the comparative periods presented.

PLAINTREE SYSTEMS INC.
Notes to the Consolidated Financial Statements
years ended March 31, 2011 and 2010
(in Canadian dollars)

3. INVENTORIES

	<u>2011</u>	<u>2010</u>
Raw materials	\$ 579,526	\$ 744,340
Work in process	635,073	534,040
Finished goods	<u>127,020</u>	<u>99,094</u>
	<u>\$ 1,341,619</u>	<u>\$ 1,377,474</u>

The cost of inventories recognized as an expense during the period was \$4,888,933 (2010 - \$5,188,818). The total carrying value of inventory at March 31, 2011 was pledged as security through general security agreements under bank lines of credit and related party liabilities.

The Company wrote down its inventories by \$140,969 in fiscal 2011 (2010 - \$701,634) to reflect where the carrying amount exceeded net realizable value.

4. ASSETS HELD FOR SALE

Assets held for sale as of March 31, 2011 consist of both manufacturing properties owned by the Company that are now available for sale. Plaintiff has 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, Plaintiff's Chief Executive Officer ("CEO"). The move to the new location is now completed and the Company has taken steps to sell its two existing buildings used by both operating segments. 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. The properties have mortgage loans totalling \$657,396 that would need to be satisfied at the time of sale of the properties.

PLAINTREE SYSTEMS INC.
Notes to the Consolidated Financial Statements
years ended March 31, 2011 and 2010
(in Canadian dollars)

5. LONG-TERM DEBT

	<u>2011</u>	<u>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, through to April 2013, secured by a general security agreement.	\$ 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 May 2027.	439,338	471,929
Term loan payable in monthly instalments of \$1,007, bearing interest at the rate of prime minus 0.85% per annum, secured by a mortgage on a property, maturing February 2012.	118,992	128,772
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
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, \$500,000, of the loan.	316,000	-
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 2018.	218,058	246,689
	1,207,650	1,036,454
Current portion	(166,543)	(180,610)
	<u>\$1,041,107</u>	<u>\$ 855,844</u>

PLAINTREE SYSTEMS INC.
Notes to the Consolidated Financial Statements
years ended March 31, 2011 and 2010
(in Canadian dollars)

5. LONG-TERM DEBT (Continued)

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

2012	\$	176,543
2013		150,422
2014		100,852
2015		100,852
2016		100,852
Thereafter		<u>588,129</u>
	\$	<u>1,207,650</u>

6. DUE FROM RELATED PARTY

Due from related party consists of \$1,102,770 (2010 - \$745,720) due from Spotton Corporation, a company controlled by Targa Group Inc. ("Targa"). Targa is the Company's largest shareholder and is a company controlled by the CEO of the Company and a related party to the CEO. The balance accrues interest at prime plus 2% and is due from the related party on demand. The \$357,050 change in the balance from fiscal 2010 relates to rent of \$54,000 (2010 - \$ 60,000) and utilities charges, advances and related interest.

7. PROPERTY, PLANT AND EQUIPMENT

	2011		
	Cost	Accumulated Amortization	Net Book Value
Land	\$ 50,000	\$ -	\$ 50,000
Building	151,000	29,123	121,877
Building improvements	638,807	15,688	623,119
Factory equipment	3,241,741	2,084,503	1,157,238
Computer equipment	998,075	937,245	60,830
Office equipment and furniture	194,444	165,496	28,948
Vehicles	115,376	57,895	57,481
Outside compound	25,490	8,284	17,206
	<u>\$ 5,414,933</u>	<u>\$ 3,298,234</u>	<u>\$ 2,116,699</u>

PLAINTREE SYSTEMS INC.
Notes to the Consolidated Financial Statements
years ended March 31, 2011 and 2010
(in Canadian dollars)

7. PROPERTY, PLANT AND EQUIPMENT (Continued)

	2010		
	Cost	Accumulated Amortization	Net Book Value
Land	\$ 180,874	\$ -	\$ 180,874
Building	1,133,016	213,933	919,083
Building improvements	1,033,239	176,759	856,480
Factory equipment	2,866,285	1,946,801	919,484
Computer equipment	956,732	922,517	34,215
Office equipment and furniture	186,475	161,842	24,633
Vehicles	68,768	56,086	12,682
Outside compound	25,490	5,735	19,755
	\$ 6,450,879	\$ 3,483,673	\$ 2,967,206

8. INTANGIBLE ASSETS

	2011		
	Cost	Accumulated Amortization	Net Book Value
Software	\$ 166,091	\$ 122,744	\$ 43,347

	2010		
	Cost	Accumulated Amortization	Net Book Value
Software	\$ 130,907	\$ 84,232	\$ 46,675

PLAINTREE SYSTEMS INC.
Notes to the Consolidated Financial Statements
years ended March 31, 2011 and 2010
(in Canadian dollars)

9. DUE TO RELATED PARTIES

	<u>2011</u>	<u>2010</u>
Due to Senior officers	\$ 2,700,887	\$ 2,356,361
Dividends payable	10,000	-
Due Targa Group Inc., convertible debenture interest	247,672	247,672
Due to Tidal Quality Management Inc.	304,872	339,924
Due to Targa Group Inc., Line of Credit	605,570	602,937
Due to Targa Group Inc., Demand Loan	66,581	66,581
Due to Targa Group Inc., loan interest	134,813	134,812
	4,070,395	3,748,287
Less: current portion	(10,000)	-
	\$ 4,060,395	\$ 3,748,287

As at March 31, 2011, a balance of \$2,700,887 (\$2,126,050 principal and \$574,837 interest) remained owing to senior officers. These amounts are classified as long-term as the parties have agreed not to demand repayment before August 2012.

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 5, 2010 to the holders of record at the close of business on June 30, 2010. 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 shares. The dividend declared was a partial payment of the dividends accumulated. \$10,000 of the dividend remains outstanding and is included above as dividends payable.

As at March 31, 2011 a balance of \$247,672 (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 the Targa. The balance is classified as long-term as the related party has agreed not to demand payment before August 2012.

Until March 31, 2003, the Company leased facilities from a company controlled by Targa. Lease arrears, including interest of \$129,898 (2010 - \$121,115) owing to this related party, amounted to \$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 and the related party was provided with a security interest in the form of a mortgage on the property owned by the Company. The forbearance agreement is now in default. The party has agreed not to demand repayment before August 2012 and the amount is classified as long-term.

PLAINTREE SYSTEMS INC.
Notes to the Consolidated Financial Statements
years ended March 31, 2011 and 2010
(in Canadian dollars)

9. 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, 2011, \$500,000, (2010 - \$500,000) remained outstanding on the line of credit with accumulated interest of \$105,570, (2010 - \$102,937) for a balance of \$605,570; \$NIL was drawn against the revolving demand loan with accumulated interest owing of \$66,581 for a balance of \$66,581. Targa has agreed that it will not demand repayment before August 2012 and, accordingly, the amounts is classified as long-term.

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

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of the following:

	<u>2011</u>	<u>2010</u>
Accounts payable	\$ 472,954	\$ 512,146
Accrued liabilities	359,801	371,086
Salaries and benefits payable	252,954	195,270
	<u>\$ 1,085,709</u>	<u>\$ 1,078,502</u>

11. 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.

PLAINTREE SYSTEMS INC.
Notes to the Consolidated Financial Statements
years ended March 31, 2011 and 2010
(in Canadian dollars)

11. SHARE CAPITAL (Continued)

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 (adjusted for 10 for 1 share consolidation) in 2008.

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:

	<u>Number of Options</u>	<u>Option Price</u>	<u>Weighted Average Option Price</u>
Options outstanding March 31, 2009 and March 31, 2010	570,000	\$0.12 - \$0.80	\$0.13
Expired during fiscal 2011	(10,000)	\$0.80	\$0.80
Options outstanding March 31, 2011	560,000	\$0.12	\$0.12

Additional information regarding options outstanding as of March 31, 2011 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>
\$0.12	560,000	2.4	\$0.12

PLAINTREE SYSTEMS INC.
Notes to the Consolidated Financial Statements
years ended March 31, 2011 and 2010
(in Canadian dollars)

11. SHARE CAPITAL (Continued)

Stock option plans (Continued)

As of March 31, 2011, 560,000 options are vested and exercisable at \$0.12 and have a weighted average contractual life of 2.4 years.

The stock-based compensation expense of \$3,393 (2010 - \$5,796) included in general and administrative expenses was determined using the fair value method, consistent with the requirements of the Canadian Institute of Chartered Accountants ("CICA") 3870 *Stock-Based Compensation and Other Stock-Based Payments*. 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 an expected life of five years.

12. 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>2011</u>	<u>2010</u>
Net income (loss)	\$ 313,295	\$ (1,283,501)
Cumulative dividends on preferred shares	<u>(1,466,000)</u>	<u>(1,466,000)</u>
Net loss attributable to common shares (basic and diluted)	<u>\$ (1,152,705)</u>	<u>\$ (2,759,501)</u>
	<u>2011</u>	<u>2010</u>
Basic and diluted weighted average shares outstanding	<u>12,925,253</u>	<u>12,824,752</u>

PLAINTREE SYSTEMS INC.
Notes to the Consolidated Financial Statements
years ended March 31, 2011 and 2010
(in Canadian dollars)

12. BASIC AND DILUTED EARNINGS PER COMMON SHARE (Continued)

For the years ended March 31, 2011 and 2010, diluted earnings per share equals basic earnings per share due to the anti-dilutive effect of options and convertible instruments.

	<u>2011</u>	<u>2010</u>
Employee and other options	560,000	570,000
Convertible debentures	229,935	229,935
Total	789,935	799,935

13. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	<u>2011</u>	<u>2010</u>
Trade accounts receivable	\$ (573,285)	\$ 1,236,278
Unbilled revenue	164,237	220,033
Due from related parties	(357,050)	(432,141)
Inventories	(105,114)	783,763
Prepaid expenses and other assets	(25,783)	(71,133)
Accounts payable and accrued liabilities	7,207	(503,732)
Deferred revenue	(395,646)	583,332
	\$ (1,285,434)	\$ 1,816,400

PLAINTREE SYSTEMS INC.
Notes to the Consolidated Financial Statements
years ended March 31, 2011 and 2010
(in Canadian dollars)

14. BUSINESS SEGMENT INFORMATION

The Company's chief decision maker, the CEO, tracks the Company's operations as two business segments - the design, development, manufacture, marketing and support of electronic products, and the specialty structural products. The Company from time to time, 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.

Revenue by geographic location

	<u>2011</u>	<u>2010</u>
Management services revenue		
Canada	\$ -	\$ 103,490
Product revenue		
Canada	5,167,776	2,482,639
United States	4,085,222	5,256,864
Chile	1,201,267	1,259,537
Other	586,290	88,343
Total product revenue	<u>11,040,555</u>	<u>9,087,383</u>
Total revenue	<u>\$ 11,040,555</u>	<u>\$ 9,190,873</u>

All of the management services revenue relates to one related party.

Revenue by division

	<u>2011</u>	<u>2010</u>
Electronics	\$ 3,197,801	\$ 3,569,891
Specialty structures	7,842,754	5,620,982
Total revenue	<u>\$ 11,040,555</u>	<u>\$ 9,190,873</u>

PLAINTREE SYSTEMS INC.
Notes to the Consolidated Financial Statements
years ended March 31, 2011 and 2010
(in Canadian dollars)

14. BUSINESS SEGMENT INFORMATION (Continued)

Net income (loss) before taxes by division

	<u>2011</u>	<u>2010</u>
Electronics	\$ (8,053)	\$ (840,437)
Specialty structures	341,433	(399,485)
Total net income (loss) before taxes	<u>\$ 333,380</u>	<u>\$ (1,239,922)</u>

The product revenue concentration (customers with revenues in excess of 10% of total revenues) is as follows:

	<u>2011</u>	<u>2010</u>
Number of customers	3	3
% of total revenue	17%, 17%, 11%	21%, 14%, 11%

Assets by division

	<u>2011</u>	<u>2010</u>
Electronics	\$ 4,525,537	\$ 5,615,020
Specialty Structures	4,447,567	3,136,531
	<u>\$ 8,973,104</u>	<u>\$ 8,751,551</u>

15. INCOME TAXES

	<u>2011</u>	<u>2010</u>
Current income taxes	\$ 20,085	\$ 53,579
Future income taxes	-	-
	<u>\$ 20,085</u>	<u>\$ 53,579</u>

PLAINTREE SYSTEMS INC.
Notes to the Consolidated Financial Statements
years ended March 31, 2011 and 2010
(in Canadian dollars)

15. INCOME TAXES (Continued)

(a) Investment tax credits

At March 31, 2011, the Company has approximately \$596,000 (2010 - \$584,000) 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	<u>12,000</u>
	<u>\$ 596,000</u>

(b) Tax losses available to carry forward

The Company has losses available to reduce future years' Canadian taxable income totalling approximately \$3,603,000. These potential benefits expire as follows:

2014	\$ 933,000
2026	27,000
2027	85,000
2028	207,000
2030	2,029,000
2031	<u>322,000</u>
	<u>\$ 3,603,000</u>

(c) Research and development deductions

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 \$20,678,000 (2010 - \$20,638,000) for Canadian federal and provincial income tax purposes. These are available without expiry to reduce future years' taxable income.

The potential future benefits associated with the investment tax credits, tax losses, and unclaimed research and development expenses have not been reflected in these financial statements.

PLAINTREE SYSTEMS INC.
Notes to the Consolidated Financial Statements
years ended March 31, 2011 and 2010
(in Canadian dollars)

15. INCOME TAXES (Continued)

(d) Limitation on use

Current federal and provincial tax laws in Canada include provisions limiting the annual use of net operating loss and credit carry forwards in the event of certain defined changes in stock ownership. Accordingly, the annual use of the Company's net operating loss and credit carryforwards could be limited according to these provisions in the event of certain changes in stock ownership.

(e) Rate reconciliation

The provision for income taxes reported differs from the amount computed by applying the Canadian statutory rate to the income before income taxes for the following reasons:

	<u>2011</u>	<u>2010</u>
Statutory income tax rate (Canada)	29%	32%
(Loss) income before taxes	\$ 333,380	\$ (1,239,922)
Expected income tax expense (recovery)	96,680	(396,775)
Net change in valuation allowance and future tax rates	(111,777)	154,346
Reversal of temporary differences, the benefit of which are not recorded	-	-
Benefit of utilization of losses not previously recorded	-	-
Asset on benefit of current loss of subsidiary not recorded	5,634	190,072
Partnership income allocated	-	-
Foreign taxes	(2,326)	33,648
Other permanent differences	31,040	72,288
Reported income tax provision	\$ 20,085	\$ 53,579

PLAINTREE SYSTEMS INC.
Notes to the Consolidated Financial Statements
years ended March 31, 2011 and 2010
(in Canadian dollars)

15. INCOME TAXES (Continued)

(f) Future income taxes

The sources of accumulated temporary differences and the related future income taxes as at March 31 are as follows:

	<u>2011</u>	<u>2010</u>
Accounting amortization in excess of tax	\$ 1,668,000	\$ 1,760,000
Research and development expenses not deducted for tax purposes	5,615,000	5,696,000
Losses available to offset future income taxes	900,000	870,000
Harmonizing debit	(60,000)	(80,000)
	<hr/>	<hr/>
Future income tax assets before valuation allowance	8,123,000	8,246,000
Less valuation allowance	(8,123,000)	(8,246,000)
	<hr/>	<hr/>
Future income tax assets	\$ -	\$ -
	<hr/>	<hr/>

16. GUARANTEES, COMMITMENTS AND CONTINGENCIES

Guarantees

The Company has entered into agreements that contain features which meet the definition of a guarantee under Canadian Accounting Guideline (AG) 14. 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 has the following guarantees that are subject to the disclosure requirements:

PLAINTREE SYSTEMS INC.
Notes to the Consolidated Financial Statements
years ended March 31, 2011 and 2010
(in Canadian dollars)

16. 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.

The following table provides a summary of the Company's obligations outstanding as at March 31, 2011:

Payments due by period

	<u>Total</u>	<u>Current</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Due to related parties – convertible debentures	\$ 247,672	\$ -	\$ 247,672	\$ -	\$ -	\$ -
Due to related Parties - other	3,140,572	-	3,140,572	-	-	-
Due to related party - line of credit	605,570	-	605,570	-	-	-
Due to related party - demand loan	66,581	-	66,581	-	-	-
Due to related party - lease payments	1,710,027	115,327	250,831	419,731	462,069	462,069
Long-term debt	1,207,650	764,287	90,771	41,200	41,200	270,192
	\$ 6,978,072	\$ 879,614	\$ 4,401,997	\$ 460,931	\$ 503,269	\$ 732,261

17. FINANCIAL INSTRUMENTS

Fair value hierarchy

Financial instruments recorded at fair value on the Balance Sheets 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:

PLAINTREE SYSTEMS INC.
Notes to the Consolidated Financial Statements
years ended March 31, 2011 and 2010
(in Canadian dollars)

17. FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (Continued)

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 counterparty 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. The Company's financial instruments and the nature of the risks which they may be subject to are set out in the following table:

PLAINTREE SYSTEMS INC.
Notes to the Consolidated Financial Statements
years ended March 31, 2011 and 2010
(in Canadian dollars)

17. FINANCIAL INSTRUMENTS (Continued)

	Risks			
	Counter Party Credit	Liquidity	Market	
Foreign Exchange			Interest Rate	
Cash	Yes		Yes	Yes
Trade accounts receivable	Yes		Yes	
Accounts payable and accrued liabilities		Yes	Yes	
Long-term debt		Yes		Yes
Due to related parties		Yes		Yes

(a) Credit risk

Credit risk arises from cash held with banks and credit exposure to customers, and others from outstanding accounts receivables. The maximum exposure to credit risk is equal to the carrying value (net of allowances) of the financial assets, specifically cash and trade accounts receivable. The objective of managing counterparty credit risk is to prevent losses on financial assets, specifically cash and trade accounts receivable. The Company assesses the credit quality of counterparties, taking into account their financial position, past experience and other factors. As at March 31, 2011, the Company has assessed counter party credit risk in its allowance for doubtful accounts.

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, 2011, the Company had cash consisting of cash on hand and deposits with banks of \$371,471 (2010 - \$1,401,678). During the years ended March 31, 2011 and 2010 the Company did not hold any investments in asset-backed commercial paper.

Accounts receivable

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

PLAINTREE SYSTEMS INC.
Notes to the Consolidated Financial Statements
years ended March 31, 2011 and 2010
(in Canadian dollars)

17. FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

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

Maximum credit risk is limited to the balance in cash, trade accounts receivables and unbilled revenue totalling \$2,326,001. As of March 31, 2011, trade receivables were comprised of three companies totalling 23%, 23% and 15%, respectively (2010 - 34%, 22% and 11%, respectively) of trade receivables. As at March 31, 2011 the Company's ageing of accounts receivable was approximately 87% (2010 - 83%) under sixty days, 2% (2010 - 2%) over 60-90 days and 11% (2010 - 15%) over 90 days and the allowance for doubtful accounts was \$10,125 (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 operation.

Interest risk

The Company is financed through loans from related parties and a bank loan which bears 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 \$4,008,674. The variable interest rates range from prime less 0.85% to prime plus 2.0%. A 1% change in the bank prime interest rate causes a \$40,087 change in annual interest expense. The Company does not use derivative instruments to reduce its exposure to interest rate fluctuations.

PLAINTREE SYSTEMS INC.
Notes to the Consolidated Financial Statements
years ended March 31, 2011 and 2010
(in Canadian dollars)

17. FINANCIAL INSTRUMENTS (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 fiscal year ended 2011, the Company had a foreign exchange loss of \$46,309 (2010 - loss of \$694,718). 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 \$112,481 and \$246,489, for the fiscal years ended March 31, 2011 and 2010, respectively.

(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. At March 31, 2011, 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).

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.

PLAINTREE SYSTEMS INC.
Notes to the Consolidated Financial Statements
years ended March 31, 2011 and 2010
(in Canadian dollars)

18. RELATED PARTY TRANSACTIONS

During the year ended March 31, 2011, a total of \$NIL (2010 - \$103,490) in management services revenue was received from a company controlled by a sibling of a significant shareholder.

During the year ended March 31, 2011, the Company incurred interest expense of \$123,814 (2010 - \$129,553) which is primarily interest on related party balances as described in Notes 9 and 10.

On April 1, 2002, the Company's senior officers agreed to defer payment of consulting fees and salaries payable. During fiscal 2011, a portion of these fees and salaries, amounting to \$102,100 (2010 - \$93,832), was paid to the senior officers. At March 31, 2011, these fees and salaries to senior officers of the Company, who are also majority shareholders of Targa, amounted to \$2,126,050 (2010 - \$1,878,335), plus interest charges of \$574,837 (2010 - \$478,026) for a total payable of \$2,700,887 (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.

19. CAPITAL MANAGEMENT

The Company manages the capital structure and makes adjustments to it in the 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 the consolidated statement of shareholders' equity as capital, which totals \$2,282,707 (2010 - \$2,145,934) at year-end.

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

PLAINTREE SYSTEMS INC.
Notes to the Consolidated Financial Statements
years ended March 31, 2011 and 2010
(in Canadian dollars)

19. CAPITAL MANAGEMENT (Continued)

The Company is subject to various covenants on the long-term debt (including debt to tangible net worth, current assets to current liabilities, capital and debt service ratios). The Company is in breach of the debt service ratio covenant noted previously, but the bank has provided a waiver letter indicating it would not require repayment prior to August 2012 with respect to these breaches; therefore, the loan is not classified as a current liability.

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, 2011 compared to the year ended March 31, 2010.

20. SUBSEQUENT EVENT

On May 3, 2011 the Company filed a Form 15F with the United States Securities and Exchange Commission (the "SEC") with the intention of voluntarily terminating its reporting obligations under Section 13(a) and Section 15(d) of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"). On the filing of the Form 15F, Plaintiff's reporting obligations with the SEC under the Exchange Act, including its obligations to file annual reports on Form 20F, was immediately suspended. Plaintiff's termination of its reporting obligations under the Exchange Act will be final 90 days after the filing of the Form 15F with the SEC, unless the SEC issues an objection.

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 shares. The dividend declared was a partial payment of the dividends accumulated.