

RAMCO SYSTEMS CANADA INC.

(A wholly-owned Subsidiary of Ramco Systems Corporation, USA)

**Financial Statements for the years ended March' 31 2014 and 2013
and Independent Auditor's Report**



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Independent Auditors' Report

To the Shareholder of Ramco Systems Canada Inc.

We have audited the accompanying financial statements of Ramco Systems Canada Inc. which comprise the balance sheet as of March 31, 2014 and March 31, 2013 and the statement of operation, Shareholders' equity, and cash flows for each of the period ended March 31, 2014 and a summary of significant accounting policies and other explanatory information.

Ramco Systems Canada Inc. was incorporated on 30th September 2010.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ramco Systems Canada Inc as at March 31, 2014 and March 31 2013, and its financial performance and its cash flows for the each of the years in the three year period ended March, 31 2014 in accordance with Canadian generally accepted accounting principles.



C N Gangadharan
Partner
CNGSN & Associates

Date: May 15th 2014



Ramco Systems Canada Inc.
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Figures in CAD

Balance Sheet

	<u>Note</u>	<u>As at Mar 31 2014</u>	<u>As at March 31 2013</u>
<u>Assets</u>			
Current Assets:			
Cash and Cash equivalents		162,760	175,034
Accounts receivable, net of allowances	3	46,815	22,404
Notes receivable from fellow subsidiary, due on demand		-	-
Other Current Assets	4	46,139	137,308
		<u>255,714</u>	<u>334,746</u>
Fixed Asset- Net	5	459	1,069
TOTAL ASSETS		256,173	335,815
<u>Liabilities</u>			
Current Liabilities:			
Accounts payable		222	7,464
Accrued expense		92,767	71,870
Deferred revenue		57,606	47,283
Due to related parties (net)		1,316	114,189
	10	<u>151,911</u>	<u>240,806</u>
Stockholder's equity:			
Common stock – 10,000shares of \$1 each		10,000	10,000
Retained earnings		94,262	85,009
	9	<u>104,262</u>	<u>95,009</u>
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY		256,173	335,815
See accompanying notes to financial statement			

Ramco Systems Canada Inc.
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Figures in CAD

Statement of Operations

	<u>01 April 2013- 31st</u> <u>March 2014</u> (in CAD)	<u>01 April 2012 -31st</u> <u>March 2013</u> (in CAD)
Revenues		
License	-	-
Services and maintenance	47,293	283,527
Others	-	33,050
	47,293	316,577
Cost of revenues		
License	-	22,256
Services and maintenance	18,917	71,523
Others	-	40,388
	18,917	134,168
Gross Margin	28,376	182,410
Operating expenses		
Selling, general and administrative expenses	15,894	239,271
Depreciation	610	612
Bad debts expenses – Accounts receivable	-	-
	16,504	239,883
Income from Operations	11,872	(57,473)
Interest income	1,011	22,731
Income before income taxes	12,883	(34,742)
Income taxes expenses (income), Net	3,630	(9,947)
Net Income	9,253	(24,795)
See accompanying notes to financial statement		

Ramco Systems Canada Inc.
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Figures in CAD

Statement of Stockholder's equity as on Mar 31 2014

	Common Stock		Retained earnings	Total Stockholder's equity
	Shares	Amount (in CAD)	In CAD	In CAD
Opening Balance	10,000	10,000	267,850	277,850
Net Profit/(Loss) for the period 01 Apr 2011 - 31 Mar 2012			(158,046)	(158,046)
Balance as on March 31 2012	10,000	10,000	109,804	119,804
Opening Balance	10,000	10,000	109,804	119,804
Net Profit/(Loss) for the period 01 Apr 2012 - 31 Mar 2013			(24,795)	(24,795)
Balance as on March 31 2013	10,000	10,000	85,009	95,009
Opening Balance	10,000	10,000	85,009	95,009
Net Profit/(Loss) for the period 01 Apr 2013 - 31 Mar 2014			9,253	9,253
Balance as on March 31 2014	10,000	10,000	94,262	104,262

Ramco Systems Canada Inc.

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Statement of Cash flows for the period 01-Apr-2013 to 31-Mar-2014

	<u>01 Apr 2013-31st</u> <u>March 2014</u> (in CAD)	<u>01 Apr 2012- 31st</u> <u>March 2013</u> (in CAD)	<u>01 Apr 2011- 31st</u> <u>March 2012</u> (in CAD)
Cash flow operating activities:			
Net Income for the period	9,253	(24,795)	(158,046)
Adjustments to reconcile net income to net cash provided by operating activities:-			
Bad debt expenses – Accounts Receivable	-	-	2,033,610
Depreciation	610	612	2,268
<u>Net changes in working capital items:</u>			
Accounts receivable	(24,411)	212,058	(1,388,093)
Due from officers and employees	-	-	2,817
Other Current Assets	91,169	90,949	(228,257)
Accounts payable	(7243)	(8,164)	5,229
Accrued expenses	20,897	(17,509)	(399,641)
Deferred revenue	10,323	(169,307)	179,623
Dues to related parties	(112,873)	(1,038,212)	230,251
	<u>(12,274)</u>	<u>(954,368)</u>	<u>279,762</u>
Net Cash provided by / (used in) Operating activities			
Cash flow from Investing activities:			
Purchase of Fixed assets	-	-	1,941
	<u>-</u>	<u>-</u>	<u>1,941</u>
Net Cash provided by / (used in) Investing activities			
Cash flow from financing activities:			
Proceeds from Issue of Shares	-	-	-
Loan to related party	-	1,052,792	(563,174)
	<u>-</u>	<u>1,052,792</u>	<u>(563,174)</u>
Net Cash provided by / (used in) financing activities			
Net increase (decrease) in cash and cash equivalents for the period	(12,274)	98,424	(281,472)
Cash and cash equivalents, beginning of year	175,034	76,609	358,081
Cash and cash equivalents, end of year	162,760	175,034	76,609
See accompanying notes to financial statement			

Notes to Financial Statements

(1) Overview

Ramco Systems Canada Inc. ("RSCI" or "the Company") was incorporated on 30th September 2010 under the laws of the Province of Ontario in Canada. The Company is wholly owned subsidiary of Ramco Systems Corporation ("RSC, USA" or "Parent"), a company incorporated under the laws of the State of California, USA

The Company markets personalized assembled solutions using the delivery platform Ramco VirtualWorks[®] developed by its ultimate parent company, Ramco Systems Limited, India and provides its related consulting services and maintenance to customers located in the Canada. The Company currently operates in single segment – Software solutions & Services

(2) Summary of Significant Accounting Policies

(a) Basis of preparation of financial statements

The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP")

(b) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Specific areas where estimation made was in determination of work in progress for revenue recognition.

(c) Cash and cash equivalents

Cash and cash equivalents consist primarily of unrestricted cash and short-term investments having an initial maturity of three months or less, and are recorded at fair market value.

(d) Revenue recognition

Revenue consists of fees for licenses of software products, software development, consulting services, maintenance and customer support.

Revenue from software product license fee is generally recognized when: (i) a signed non cancelable agreement exists, (ii) delivery has occurred, (iii) the fee is fixed or determinable, and (iv) collectability is probable.

Maintenance revenue is deferred and recognized ratably over the term of the maintenance agreement, which is generally one to three years. Deferred revenue includes payments received in advance of maintenance services, which are being recognized in revenue ratably over the term of the maintenance agreement.

Revenues from implementation, software development, consulting, customer support and other services are generally based upon time and materials billings, and are recognized as the related services are performed, customer approval is received, collectability is probable and such revenue are contractually non-refundable. These services are separately priced from other deliverables. Amounts collected prior to satisfying the above revenue recognition criteria are classified as deferred revenue.

For contracts that are custom software developments, the Company adopts the percentage of completion method of revenue recognition. The assumptions used to determine percentage of completion be reviewed by the management on a periodic basis in order to ensure that the revenue amount that is recognized indicate the actual value that is completed and the methodology that is followed is consistent and is supported by applicability to multiple projects with similar revenue streams.

(e) Fixed Assets

Fixed Assets are carried at cost less accumulated amortization. The Company provides for amortization of property and equipment commencing once the related assets have been put into service using the following methods and rates or period:

	Method	Rate/period
Computer equipment	Declining balance	30%
Furniture and fixtures	Declining balance	20%
Exhibition equipment	Declining balance	30%
Leasehold improvements	Straight-line	Over term of Lease

(f) Impairment of Long-lived assets

The Company assesses the carrying value of its long-lived assets which includes property & equipment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. An impairment loss is recognized if the carrying value of a long-lived asset exceeds the sum of the estimated undiscounted future cash flows expected from its use. The amount of impairment loss, if any, is determined as the excess of the carrying value of the assets over their fair value. No impairments were recorded in 2014.

(g) Income taxes

The Company provides for income taxes using the asset and liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between financial statement values and tax values of assets and liabilities using substantively enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse. The Company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

(h) Foreign currency transactions

Monetary items held in foreign currency are translated at year-end closing rates; Non-monetary items are retained in the Balance Sheet at historic rates. Revenues and expenditures in foreign currency are accounted at the average rate for the year. The receivables and payable in foreign currency are translated at closing exchange rate and foreign gain / loss are included in income statement

(i) *Allowance for doubtful accounts*

Credit is extended based on evaluation of a customers' financial condition and, generally, collateral is not required. Accounts receivable are most often due within 30 to 90 days and are stated at amounts due from customers net of an allowance for doubtful accounts. Accounts that are outstanding longer than the contractual payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Company's previous loss history, the customer's current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes-off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. The Company does not accrue interest on accounts receivable past due.

(i) *Related Party transactions*

The Company has significant transactions with its parent company "Ramco Systems Corporation, USA (RSC, USA)", its ultimate parent company "Ramco Systems Limited, India (RSL, India) and other fellow subsidiary. The Company is dependent on its parent company for financial support. Management has obtained a commitment from its parent to support the Company, as necessary.

Under a distribution agreement, the Company markets personalized assembly applications that have been developed by RSL, India, to customers in Canada. Under this agreement, the Company pays RSL, India a 40% royalty on license. In the case of services performed by the company to its customers using the technology developed by RSL, India, the Company pays for time and material spent.

(j) *Earnings per share*

Basic net earnings per common share are calculated using the weighted average number of common shares outstanding during the year

(3) Accounts receivable

The accounts receivable amounting to \$ 46,815 (\$22,404 as on Mar 31 2013) is net of allowance for doubtful receivables.

For the years ended March 31, 2014 and 2013 the company had no bad debts expenses.

	For the year ended March 31	
	2014	2013
Balance, beginning of year	2,335,908	2,335,908
Provision for doubtful accounts	-	-
Write off of accounts receivable	-	-
Balance, end of year	2,335,908	2,335,908

(4) Other Current Assets

Other current assets consist of the following:

	For the year ended March 31	
	2014	2013
Income tax receivable	41,139	132,308
Prepaid Expenses-Others	5,000	5,000

(5) Fixed Assets

Fixed Assets consist of the following:

	For the year ended March 31	
	2014	2013
Computer equipment	2,033	2,033
Accumulated depreciation	(1,574)	(964)
Fixed Assets, net	459	1,069

(6) Financial instruments, concentration of risk and Economic dependence

The Company has classified cash and cash equivalents, accounts receivable, notes receivable as held-for-trading financial instruments and as such are recorded on the balance sheet at fair value. The Company has determined that the carrying values of its short-term financial assets and liabilities, including cash and cash equivalents, accounts receivable, notes receivable, accounts payable and accrued liabilities approximate their fair value because of the relatively short period to maturity of the instruments.

(a) Risk Management

The Company is exposed to the following risks as a result of holding financial instruments: currency or foreign exchange risk, credit risk, liquidity risk, interest rate risk and market risk.

(i) Currency risk

The Company is exposed to currency risk as a certain portion of the Company's revenues and expenses are incurred in U.S. dollars resulting in U.S. dollar-denominated accounts receivable and dues to related parties. In addition, certain of the Company's cash and cash equivalents are denominated in U.S. dollars. These balances are therefore subject to gains or losses due to fluctuations in that currency. The Company may enter into foreign exchange contracts in order to offset the impact of the fluctuation of the U.S. dollar regarding the revaluation of its U.S. net monetary assets

The following table provides an indication of the Company's foreign exchange currency exposures as at March 31 2014 & March 31 2013

	For the year ended March 31	
	2014 In USD	2013 In USD
Cash & Cash equivalents	67,715	79,113
Accounts Receivables	58,690	35,074
Dues to related parties	-	114,964

The following exchange rates applied during the years ended March 31 2014 & March 31 2013.

	For the year ended March 31			
	2014		2013	
	Average Rate	Reporting date rate	Average Rate	Reporting date rate
Canadian \$ per US \$	0.94897	0.90460	0.9987	0.9843

(ii) Credit risk

Credit risk is the risk associated with incurring a financial loss when the other party fails to discharge an obligation. Financial instruments which potentially subject the Company to credit risk consist principally of cash and cash equivalents, accounts receivable and notes receivable. The Company's cash and cash equivalents are maintained at major financial institutions. Accounts receivable and notes receivables are backed by signed agreements.

(iii) 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 manages liquidity risk by continuously monitoring actual and projected cash flows. The Management reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the ordinary course of business.

The following are contractual maturities of financial liabilities for the year ended 31st March 2014 and 31st March 2013

For the year ended March 31

	2014		2013	
	Carrying amounts	Maturity Less than 1 year	Carrying amounts	Maturity Less than 1 year
Accounts Payable	222	222	7,464	7,464
Accrued Liabilities	92,767	92,767	71,870	71,870

(iv) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's exposure to interest rate risk is summarized as follows:

Cash and Cash equivalents	Non-interest bearing
Accounts receivable, net of allowances	Non-interest bearing
Due from officers and employees	Non-interest bearing
Notes Receivable - affiliates, due on demand	As detailed in Note:4
Accounts payable & Accrued expenses	Non-interest bearing
Accrued expenses	Non-interest bearing
Due to Affiliates & related parties	Non-interest bearing

Interest income in the statement of earnings represents interest income for Notes receivable from affiliates

(b) Fair Values

The Company's financial instruments includes cash and bank indebtedness, accounts receivable, due to and from related parties, accounts payable and accrued liabilities and longterm debt, the fair values of which approximate their carrying values due to their short term maturity or market interest rates

(c) Economic Dependence

About 100% (100% for 2013) of the Company's revenues come from Single customer. The Company generally extends credit to customers and, therefore, collection of receivables is affected by the financial position of these customers. However, the Company closely monitors extension of significant credit to these customers. The receivable from this single major customer after bad debt allowance is 100% (100% for 2013)

(7) Income taxes

There are no material tax effects resulting from temporary differences in the current period that would give rise to future income tax assets and future income tax liabilities.

The major factors that cause variations from the Company's combined federal and provincial statutory Canadian income tax rates of 26.9% were the following:

	01 Apr 2013- 31 Mar 2014	01 Apr 2012- 31 Mar 2013
Expected tax at statutory rates	3,466	(9,346)
Increase resulting from:		
a. Non-deductible expenses	0	92
b. Difference in tax rates, foreign exchange and other	164	(693)
Income tax expenses/(recovery)	3,630	(9,947)

(8) Common stock

Authorized: Unlimited common shares

Issued and Paid up:

	Number	Amount
Balance as at March, 31 2013	10,000	\$10,000
Balance as at March, 31 2014	10,000	\$10,000

Voting: Each holder of common stock is entitled to one vote per share.

(9) Related party transactions

All intercompany transactions are transacted at normal commercial terms at exchange amount agreed upon by the parties

The amount due to related parties was unsecured, non-interest bearing and had no specific repayment term.

Summary of Related party transaction:-

For the year ended March 31

<u>Dues from Related Parties</u>	<u>2014</u>	<u>2013</u>
A. Ramco Systems Limited, India	1,316	5,427
B. Ramco Systems Corporation, USA	-	108,762
Total	1,316	114,189

A. Inter Company transactions with ultimate parent Ramco Systems Limited, India

<u>Payable to Ramco Systems Limited, India</u>	<u>31-Mar-14</u>	<u>31-Mar-13</u>
Opening balance	5,427	376,683
Debits:		
Transfer Pricing	-	4,343
Royalty	18,917	22,256
Salary	-	1,649
Travel	-	4,591
Payments made (including withholding taxes)	(23,028)	(404,096)
Closing balance	1,316	5427

B. Inter Company transactions with parent Ramco Systems Corporation, USA

The Company spent for the Salaries, travel and other related expenses of employees of parent company for the support of Company's Sales and project related activities

The amount due to Parent was unsecured, non-interest bearing and had no specific repayment term.

Summary of transactions with Parent Company are as below:-

<u>Payable to Ramco Systems Corporation, USA</u>	<u>31-Mar-14</u>	<u>31-Mar-13</u>
Opening balance	108,762	725,035
Debits:		
Salary	-	45,514
Travel	-	41,889
Others	-	16,836
Payments made	(108,762)	(720,513)
Closing balance	0	108,762

C. Inter Company transactions with fellow subsidiary Ramco Systems Limited, Swiss

The Company has incurred costs for efforts spent by employees of fellow subsidiary including outsourcing costs & license costs payable by fellow subsidiary to outside entity for the support of Company's project related activities

The amount due to fellow subsidiary was unsecured, non-interest bearing and had no specific repayment term.

<u>Payable to Ramco Systems Ltd, Swiss</u>	<u>31-Mar-14</u>	<u>31-Mar-13</u>
Opening balance	-	50,683
<u>Debits:</u>		
Outsourcing Costs	-	-
Transfer Price	-	-
License Costs	-	-
Payments made	-	(50,683)
Closing balance	-	-

(10) Earnings per share

Basic and diluted earnings per share are the same as the Company has no potentially dilutive securities outstanding.

	<u>31-Mar-14</u>	<u>31-Mar-13</u>
Net Profit available to stockholders	9,253	(24,795)
Weighted average number of equity shares outstanding	10,000	10,000
Earnings per share	\$0.9253	(\$2.4795)

(11) Business Segment Data:

The Company operates primarily in one geographic and in one industry segment which sells Software solutions & services. Accordingly, no segmented information has been presented.

(12) Statement of Comprehensive Income

The Company has not presented a statement of comprehensive income as it has no other comprehensive income.