

Consolidated Financial Statements of

**GUEST-TEK INTERACTIVE
ENTERTAINMENT LTD.**

Years ended March 31, 2008 and 2007

AUDITORS' REPORT

**To the Shareholders of
Guest-Tek Interactive Entertainment Ltd.**

We have audited the consolidated balance sheets of **Guest-Tek Interactive Entertainment Ltd.** as at March 31, 2008 and March 31, 2007 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2008 and March 31, 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
June 11, 2008

GUEST-TEK INTERACTIVE ENTERTAINMENT LTD.

Consolidated Balance Sheets

March 31, 2008 and 2007

	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	\$2,956,869	\$ 1,977,327
Accounts receivable (note 4)	8,665,885	8,637,068
Installations in progress	1,801,107	380,749
Inventory	1,257,983	1,840,810
Prepaid expenses and deposits	1,495,486	603,158
	<u>16,177,330</u>	<u>13,439,112</u>
Property and equipment (note 6)	4,412,159	5,197,564
Deferred costs (note 7)	4,566,026	3,003,785
Intangible assets (note 8)	4,371,999	6,580,193
Goodwill	11,768,224	11,768,224
	<u>\$ 41,295,738</u>	<u>\$ 39,988,878</u>

Liabilities and Shareholders' Equity

Current liabilities:

Operating line of credit (note 9)	\$ -	\$ 926,028
Accounts payable and accrued liabilities	6,527,165	5,303,520
Customer deposits	6,085,687	1,720,163
Deferred revenue	592,800	281,288
Current portion of capital lease obligations (note 10)	-	49,729
Current portion of notes payable (note 11)	128,895	167,027
	<u>13,334,547</u>	<u>8,447,755</u>
Capital lease obligations (note 10)	-	12,505
Deferred leasehold inducement	121,843	243,641
Notes payable (note 11)	1,743,276	150,325
Deferred revenue	2,496,438	1,803,822
Future tax liability (note 5)	1,049,660	1,716,270
	<u>5,411,217</u>	<u>3,926,563</u>
Shareholders' equity:		
Share capital (note 12)	53,779,555	53,761,394
Contributed surplus (note 13)	2,912,440	2,714,892
Deficit	(34,142,021)	(28,861,726)
	<u>22,549,974</u>	<u>27,614,560</u>
Commitments (note 14)		
Contingencies (note 1, 20)		
	<u>\$ 41,295,738</u>	<u>\$ 39,988,878</u>

See accompanying notes to financial statements.

Approved by the Board:

(signed) Arnon Levy Director

(signed) Kelly Blake Director

GUEST-TEK INTERACTIVE ENTERTAINMENT LTD.

Consolidated Statements of Operations, Comprehensive loss and Deficit

Years ended March 31, 2008 and 2007

	2008	2007
Revenue (note 17)	38,135,328	35,277,493
Cost of revenue	24,174,053	24,456,078
Gross margin	13,961,275	10,821,415
Operating expenses:		
Selling, general and administrative	13,082,266	13,190,910
Research and development	1,205,010	1,482,309
Amortization of property and equipment	1,652,399	2,113,547
Amortization of intangible assets	1,181,739	1,649,541
Write down of intangible assets (note 3)	1,189,566	2,178,676
Write down of goodwill (note 3)	-	867,325
Amortization of deferred compensation	-	381,067
Amortization of internally developed software	327,932	304,488
Foreign currency loss (gain)	994,820	(582,226)
Stock based compensation (note 12)	220,120	565,886
Interest expense	27,785	27,794
Research and development tax credits	-	(346,306)
	19,881,637	21,833,011
Loss before interest income and income taxes	(5,920,362)	(11,011,596)
Interest income	34,841	28,731
Loss before income taxes	(5,885,521)	(10,982,865)
Income tax (recovery) expense (note 5)	(605,226)	2,919,036
Net loss and comprehensive loss	(5,280,295)	(13,901,901)
Deficit, beginning of year	(28,861,726)	(14,959,825)
Deficit, end of year	\$ (34,142,021)	\$(28,861,726)
Net loss per share (note 15)		
Basic	\$ (0.33)	\$ (0.88)
Diluted	(0.33)	(0.88)
Weighted average number of shares:		
Basic	15,824,410	15,805,844
Diluted	15,847,484	15,854,953

See accompanying notes to financial statements.

GUEST-TEK INTERACTIVE ENTERTAINMENT LTD.

Consolidated Statements of Cash Flows

Years ended March 31, 2008 and 2007

	2008	2007
Cash provided by (used in):		
Operating activities:		
Net loss	\$ (5,280,295)	\$ (13,901,901)
Non-cash items:		
Amortization of leasehold inducement	(121,798)	(121,798)
Amortization of property and equipment	1,652,399	2,113,547
Amortization of intangible assets	1,181,739	1,649,541
Write down of intangible assets (note 3)	1,189,566	2,178,676
Write down of goodwill (note 3)	-	867,325
Amortization of deferred compensation	-	381,067
Amortization of internally developed software	327,932	304,488
Future income taxes (recovery) expense	(666,610)	2,540,133
Stock based compensation	220,120	565,886
Unrealized foreign exchange loss (gain)	467,217	(125,752)
Research and development tax credits	-	(346,306)
	(1,029,730)	(3,895,094)
Net change in non-cash working capital components and deferred costs (note 16)	2,983,506	4,652,117
	1,953,776	757,023
Financing activities:		
Operating line of credit facility	(926,028)	926,028
Loan proceeds	1,743,276	-
Cash received on options exercised	2,169	54,700
Cash paid to settle Golden Tree options (notes 12 & 13)	(6,580)	(83,168)
Repayment of notes payable	(188,455)	(691,789)
Capital lease obligations	(62,234)	(191,028)
	562,148	14,743
Investing activities:		
Acquisition of Sigpro LLC	-	(103,733)
Cash acquired on acquisition	-	35,573
Advance to Sigpro LLC	-	(700,706)
Purchase of property and equipment and intangible assets	(1,358,037)	(2,524,259)
	(1,358,037)	(3,293,125)
Impact of foreign exchange on cash	(178,345)	55,241
Increase (decrease) in cash and cash equivalents	979,542	(2,466,118)
Cash and cash equivalents, beginning of year	1,977,327	4,443,445
Cash and cash equivalents, end of year	\$ 2,956,869	\$ 1,977,327
Interest received	\$ 34,841	\$ 28,731
Interest paid	\$ 27,785	\$ 27,794
Tax installments paid	\$ 26,853	\$ 18,232

See accompanying notes to financial statements.

GUEST-TEK INTERACTIVE ENTERTAINMENT LTD.

Notes to Consolidated Financial Statements

Years ended March 31, 2008 and 2007

1. Nature of operations:

Guest-Tek Interactive Entertainment Ltd. ("the Company") is incorporated under the Alberta Business Corporation Act. The Company delivers broadband high-speed Internet access ("HSIA"), video on demand ("VOD") and voice over Internet protocol ("VoIP") solutions to businesses serving mobile users, principally in the hospitality industry.

The Company has incurred successive years of losses and negative cash flow, largely as a result of investment in new products such as VOD and VoIP, and in penetrating new markets. Over the fiscal year ended March 31, 2008, the Company has financed its operations and investments through cash on hand, loans from significant shareholders (M.P. Technologies, Inc. and Arnon Levy - see note 19) and by managing its working capital.

The Company plans to continue to manage its cash flow and investment in new products to match the cash requirements to cash generated from operations. Plans include programs to improve gross margin and limit operating expenses and capital expenditures. In addition, the Company's significant shareholders have provided financial support to the Company as required. The Company's management ("Management") believes that successful execution of its business plan will result in sufficient cash flow to fund projected operational and investment requirements. However, no assurances can be given that the Company will be able to achieve all or part of the objectives discussed above, or that sufficient financing from significant shareholders will be available. Further, if the Company's operations are unable to generate cash flow levels at or above current projections, the Company may not have sufficient funds to meet its obligations over the next twelve months. Should such events occur, Management is committed to implementing all or a portion of its contingency plan. This plan has been developed and designed to provide additional cash flow, and includes, but is not limited to, deferring certain product development initiatives, reducing sales and marketing expenses and reducing general and administrative expenses. The failure of the Company to achieve one or all of the above items may have a material adverse impact on the Company's financial position, results of operations and cash flows.

2. Significant accounting policies:

These consolidated financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles and are stated in Canadian dollars. The following is a summary of significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned.

(b) Revenue recognition:

The Company sells products and services pursuant to a contract and the terms of the contract, taken as a whole, determine the appropriate revenue recognition methods to be applied.

GUEST-TEK INTERACTIVE ENTERTAINMENT LTD.

Notes to Financial Statements, Page 2

Years ended March 31, 2008 and 2007

2. Significant accounting policies (continued):

The Company generally applies the guidance found in the Canadian Institute of Chartered Accountants ("CICA") Emerging Issues Committee ("EIC") 142 – *Revenue Arrangements with Multiple Deliverables*. Under EIC-142, revenue arrangements are separated into units of accounting provided the following criteria are met for each separate unit: the delivered item has value to the customer on a stand-alone basis; there is objective and reliable evidence of the fair value of the undelivered item (or items); and if the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item is considered probable and substantially in the control of the Company.

HSIA installation revenue:

For contract arrangements involving the provision of HSIA, the software maintenance and user support agreements qualify for separate accounting under EIC 143 *Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts* and the revenue under these agreements is recognized ratably over the service period. The other elements of the arrangement (hardware, software, and installation services, collectively the "installation elements") individually do not have stand-alone value to the customer under EIC 142 and are therefore accounted for as one accounting unit. Revenue relating to the installation elements is accounted for using the percentage of completion method.

The Company prepares detailed cost estimates for each contract using third-party hardware supply costs and standard labour costing methodologies that have been established over time, based on past experience. The Company uses contractual milestones to determine its progress to completion. Contracts are completed using established processes for contract execution and are monitored through project management procedures and status review throughout their terms. If a loss on a contract is considered probable, all of that loss is recognized at the date the loss is determinable. Amounts invoiced in excess of recorded revenues are deferred.

HSIA recurring revenue:

Contracts with customers also include a separate agreement for provision of ongoing software maintenance and support services. These services are considered to have stand-alone value and, accordingly, the related revenue is accounted for as a separate unit of accounting and is recognized on a straight-line basis over the term of the agreement from the date of customer acceptance.

VOD installation and support revenues:

During the year ended March 31, 2006, the Company began supplying VOD products and services to its customers.

GUEST-TEK INTERACTIVE ENTERTAINMENT LTD.

Notes to Financial Statements, Page 3

Years ended March 31, 2008 and 2007

2. Significant accounting policies (continued):

Management has concluded that none of the individual elements in a VOD arrangement can be separately accounted for as units of accounting. Similar to HSIA arrangements, Management has concluded that none of the elements in the installation phase (hardware, software, installation, or customization) have stand-alone value to the customer. In addition, Management has concluded that the elements in the support and maintenance phase (call-centre and technical support, software upgrades and maintenance, content management) have not demonstrated vendor-specific objective evidence ("VSOE") of fair value as defined in EIC 142 and therefore cannot be separately accounted for as units of accounting.

Therefore, VOD purchase and support arrangements are accounted for as one unit of accounting and revenue from the arrangement is recognized ratably over the support and maintenance period, commencing on customer acceptance. Amounts billed to customers in excess of recorded revenues are deferred. Costs associated with installation (primarily equipment and installation labour) are deferred and amortized ratably over the support and maintenance period commencing on the date of customer acceptance. If Management concludes that deferred costs exceed the fees charged to the customer for installation, then an assessment is made as to whether the excess will be recovered from the margin on support and maintenance services. Any portion that cannot be recovered is written off.

Revenue share arrangements:

Certain ongoing contracts with customers provide for revenue sharing with the Company. Under these agreements, title to equipment installed at customers remains with the Company. A portion of the usage fees generated by the customer is paid to the Company in accordance with the terms of the agreement. Those fees are recognized as revenue when they become payable to the Company and collection is reasonably assured.

VoIP product revenues:

After the purchase of Sigpro, the Company began supplying VOIP products to its customers. VOIP product revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectibility is reasonably assured.

(c) HSIA installations in progress

Installations in progress is valued at the lower of cost and net realizable value. It represents the excess of hardware costs incurred to date on installation in progress over costs of revenue recognized to date.

(d) Cash and cash equivalents:

Cash and cash equivalents consist of bank deposits and short-term investments with maturities when purchased of three months or less.

GUEST-TEK INTERACTIVE ENTERTAINMENT LTD.

Notes to Financial Statements, Page 4

Years ended March 31, 2008 and 2007

2. Significant accounting policies (continued):

(e) Inventory:

Inventory is recorded at the lower of cost determined on an average cost basis and net realizable value.

(f) Property and equipment:

Property and equipment are recorded at cost. Amortization is provided over the estimated useful lives of the assets using the following methods and rates:

Assets	Method	Rate
Computer hardware	Declining-balance	20% to 30%
Furniture and equipment	Declining-balance	20%
Leasehold improvements	Straight-line	Term of lease

Installation costs, including equipment costs, relating to revenue-share contracts where the Company retains ownership of the assets are capitalized and amortized over the term of the related contract.

(g) Intangible assets:

Acquired computer software is recorded at cost and is amortized on a straight line basis over an expected life of one to three years.

Development costs, including costs associated with internally developed software, that meet certain criteria related to technology, market and financial feasibility under Canadian generally accepted accounting principles, are deferred. Such costs are amortized over the estimated economic life of the related product starting upon commencement of commercial sales. Development costs that do not meet such criteria are charged to income in the period of expenditure.

Other intangible assets comprised of acquired customer contracts and customer relationships, are recorded at cost and amortized on a straight line basis over the term of the contract or estimated useful life.

(h) Goodwill:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the identifiable assets acquired, less liabilities assumed, based on their fair values.

Goodwill is not amortized, but is tested for impairment in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired.

GUEST-TEK INTERACTIVE ENTERTAINMENT LTD.

Notes to Financial Statements, Page 5

Years ended March 31, 2008 and 2007

2. Significant accounting policies (continued):

The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying value of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of the goodwill is determined in the same manner as the value of the goodwill is determined in a business combination using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of a reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

(i) Impairment of long lived assets:

Property and equipment and other long lived assets are regularly reviewed by Management for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Impairment is assessed by comparing the carrying amount of an asset with the sum of the undiscounted cash flows expected from its use or disposal. If such assets are considered impaired, the impairment loss to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value, generally determined on a discounted cash flow basis. Any impairment results in a write-down of the asset and a charge to income during the year.

(j) Leasehold inducement:

The leasehold inducement is being amortized on a straight-line basis over the term of the lease.

(k) Income taxes:

Income taxes are accounted for using the asset and liability method. Under this method, future income tax assets and liabilities are determined based on "temporary differences" (differences between the accounting basis and the tax bases of the Company's assets and liabilities) and measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when the differences are expected to be reversed.

Management assesses whether it is more likely than not that deductible temporary differences, unused tax losses, and other income tax reductions will be realized. To the extent that it is more likely than not that some or a portion of all of the assets will not be realized, a valuation allowance is recorded to reduce the future income tax asset to the amount that is more likely than not to be realized.

(l) Stock-based compensation:

The Company recognizes the compensation cost of stock options granted to employees and directors, measured at fair value at the date of the grant and expensed over the option vesting period, with a corresponding increase to contributed surplus. Upon the exercise of the option, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

GUEST-TEK INTERACTIVE ENTERTAINMENT LTD.

Notes to Financial Statements, Page 6

Years ended March 31, 2008 and 2007

2. Significant accounting policies (continued):

(m) Per share amounts:

Per share amounts are calculated using the weighted average number of Common Shares outstanding during the year. Diluted per share amounts are calculated using the treasury stock method, which assumes that proceeds received from the exercise of options would be used to purchase Common Shares at the average market price during the year. The weighted average number of Common Shares outstanding is then adjusted by the net change.

(n) Foreign currency translation:

Foreign currency monetary assets and liabilities of the Company's foreign subsidiaries, which are considered to be integrated, are translated to Canadian dollars at the year end exchange rate and non-monetary assets and liabilities are translated at historic rates. Revenues and expenses are translated at average exchange rates, except for amortization, which is translated at the exchange rate prevailing when the related assets were acquired. Exchange gains and losses resulting from translation are included in the statement of operations, comprehensive loss and deficit.

Transactions denominated in foreign currencies are translated using the temporal method. Under this method, monetary assets and liabilities are translated using the rate of exchange in effect at the balance sheet date whereas non-monetary assets and liabilities are translated at the rate of exchange in effect on the date of the transaction. Revenues and expenses are translated at monthly average rates prevailing throughout the period. Exchange gains and losses resulting from translation are included in the statement of operations, comprehensive loss and deficit.

(o) Use of estimates and assumptions:

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates. Estimates are used when accounting for items such as: revenue recognition and accruals for losses on contracts; allowances for uncollectible accounts receivable and inventory obsolescence; product warranties; amortization; asset valuations; impairment assessments for goodwill, long-lived assets and deferred costs; employee benefits; taxes and related valuation allowances and provisions; stock-based compensation; and, contingencies.

GUEST-TEK INTERACTIVE ENTERTAINMENT LTD.

Notes to Financial Statements, Page 7

Years ended March 31, 2008 and 2007

2. Significant accounting policies (continued):

(p) Change in accounting policies

On April 1, 2007, the Company adopted the new CICA Handbook sections 3855 - Financial Instruments – Recognition and Measurement, 1530 – Comprehensive Income, and 3865 – Hedges. The financial instruments standard establishes the recognition and measurement criteria of financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities as defined by the standard.

Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recognized in net earnings. Financial assets available-for-sale are measured at fair value, with changes in those fair values recognized in other comprehensive income. Financial assets held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method of amortization. The methods used by the Company in determining the fair value of financial instruments are unchanged as a result of implementing the new standard.

The Company has no financial instruments or activities that give rise to other comprehensive income. The Company's cash and cash equivalents are designated as held-for-trading and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments. Accounts receivable are designated as loans and receivables and are measured at cost. Accounts payable and accrued liabilities, customer deposits, deferred revenue, notes payable and the operating line of credit are designated as other liabilities and are measured at cost.

(q) New Accounting Pronouncements

(i) *Capital Disclosures and Financial Instruments – Presentation and Disclosure*

The CICA issued three new accounting standards: section 1535, Capital Disclosures, section 3862, Financial Instruments – Disclosures, and section 3863, Financial Instruments – Presentation. These new standards will be effective for fiscal years beginning on or after October 1, 2007 and the Company will adopt them on April 1, 2008. The company is in the process of evaluation the disclosure and presentation requirements of the new standards.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Section 3862 and 3863 will replace section 3861 Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Company manages those risks.

GUEST-TEK INTERACTIVE ENTERTAINMENT LTD.

Notes to Financial Statements, Page 8

Years ended March 31, 2008 and 2007

2. Significant accounting policies (continued):

(ii) *Inventories*

The CICA issued section 3031, Inventories which will replace section 3030, Inventories. This new standard is effective for fiscal years beginning on or after July 1, 2007, and the Company will adopt this section on April 1, 2008. Section 3031 provides more extensive guidance on measurement, and expands disclosure requirements to increase transparency. The Company's accounting policy for inventories is consistent with measurement requirements in the new standard and therefore it is not anticipated that the results of the Company will be significantly impacted; however, additional disclosures will be required in relation to inventories carried at net realizable value, the amount of inventories recognized as an expense, and the amount of any write downs of inventories.

(iii) *Goodwill and Intangible Assets*

In February 2008, the CICA issued Section 3064, Goodwill and intangible assets, replacing Section 3062, Goodwill and other intangible assets and Section 3450, Research and development costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning April 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements.

(r) *Comparative amounts:*

Certain of the comparative amounts have been reclassified to conform to the presentation adopted in the current year.

GUEST-TEK INTERACTIVE ENTERTAINMENT LTD.

Notes to Financial Statements, Page 9

Years ended March 31, 2008 and 2007

3. Acquisition of Sigpro LLC:

On July 7th, 2006, the Company acquired all of the outstanding common shares of Sigpro LLC. ("Sigpro"). The results of Sigpro's operations have been included in the consolidated financial statements since that date. The acquisition was accounted for using the purchase method. The purchase price allocation to net assets, based on their fair values, was as follows:

Net assets acquired (liabilities assumed):

Non-cash working capital deficit	\$ (26,953)
Property plant and equipment	54,126
Notes payable to shareholders	(758,604)
Intangible assets	4,387,070
Goodwill	867,325

Net assets acquired before cash position	4,522,964
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Cash	35,573
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	\$ 4,558,537
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Consideration:

Cash	\$ 4,232,106
Notes payable	250,534
Transaction costs	75,897

	\$ 4,558,537
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The notes payable to shareholders are unsecured and pay interest at 3%. A one time payment of US \$225,000 was made during the three months ended September 30, 2006 with the balance payable monthly beginning September 1, 2007 for 15 months with installments of US \$15,000 per month.

Included in the non-cash working capital at acquisition was a note payable issued by Sigpro to City National Bank. The Note was unsecured and paid interest at the bank's prime rate plus 1.75%.

The cash consideration consists of \$4,204,269 paid before July 7, 2006 via advances to Sigpro and \$27,837 paid on July 7th, 2006.

Since the acquisition, facts and circumstances regarding Sigpro's revenue prospects have changed. Consequently, Sigpro senior management have developed new sales forecasts. Using these new forecasts, Management has concluded that the carrying value of the Sigpro intangible assets (consisting of intellectual property ("IP") and customer relationships) is not fully recoverable. The carrying value of Sigpro intangible assets as of March 31, 2008 was \$1,189,567 prior to any write-downs for impairment. Based on Management's analysis, the fair value as of March 31, 2008 was \$nil, resulting in a write-down of \$1,189,566. The carrying value of Sigpro intangible assets as of March 31, 2007 was \$3,729,010 prior to any write-downs for impairment.

Based on Management's analysis, the fair value as of March 31, 2007 was \$1,550,334, resulting in a write-down of \$2,178,676. Following the write-down of the intangible assets on March 31, 2007, Management tested the carrying value of goodwill for Sigpro and concluded that the carrying value of goodwill should be written down to \$nil.

GUEST-TEK INTERACTIVE ENTERTAINMENT LTD.

Notes to Financial Statements, Page 10

Years ended March 31, 2008 and 2007

4. Accounts receivable:

	2008	2007
Trade accounts receivable	\$ 4,932,125	\$ 6,855,900
Accrued revenue	3,546,802	1,335,112
Other receivables	186,958	446,056
	<u>\$ 8,665,885</u>	<u>\$ 8,637,068</u>

5. Income taxes:

Income tax expense (recovery) is calculated using the combined federal and provincial statutory income tax rate. The reconciliation of income tax expense calculations and the provision reported in the financial statements is as follows:

	2008	2007
Loss before income taxes	\$ (5,885,521)	\$ (10,982,865)
Combined federal and provincial income tax rate	30.63%	32.12%
Expected income tax recovery	\$ (1,802,735)	\$ (3,527,696)
Increase in valuation allowance	1,694,834	6,297,989
Income taxes in other jurisdictions	(288,247)	(433,444)
Adjustments for enacted changes in income tax rates	655,917	418,026
Book to filing adjustments	(465,764)	(61,758)
Non-deductible expenses	95,014	279,428
Foreign exchange	(235,645)	(100,286)
Other	(258,600)	46,777
Actual income tax expense (recovery)	<u>\$ (605,226)</u>	<u>\$ 2,919,036</u>
Current	\$ 61,384	\$ 378,903
Future	(666,610)	2,540,133
Actual income tax expense (recovery)	<u>\$ (605,226)</u>	<u>\$ 2,919,036</u>

GUEST-TEK INTERACTIVE ENTERTAINMENT LTD.

Notes to Financial Statements, Page 11

Years ended March 31, 2008 and 2007

5. Income taxes (continued):

The components of the net future income tax liability are as follows:

2008				
	Canada	US	Other	Total
Future income tax asset (liability):				
Share issue costs	\$ 20,045	\$ -	\$ -	\$ 20,045
Intangible assets	-	651,864	-	651,864
Investment tax credit	2,515,665	-	-	2,515,665
Research & development expenses	1,187,425	-	-	1,187,425
Property and equipment	621,498	(58,522)	-	562,976
Non-capital losses	1,555,233	785,795	565,274	2,920,066
Other	-	1,390	-	1,390
Net future income tax (liability) asset before valuation allowance	5,899,865	1,380,527	565,274	7,859,431
Valuation allowance	(5,899,865)	(2,430,187)	(565,274)	(8,909,091)
Net future income tax (liability) asset	\$ -	\$ (1,049,660)	\$ -	\$ (1,049,660)
Current portion	\$ -	\$ -	\$ -	\$ -
Non-current portion	-	(1,049,660)	-	(1,049,660)
Net future income tax (liability) asset	\$ -	\$ (1,049,660)	\$ -	\$ (1,049,660)

In the US there are two separate entities, one with a future tax asset of \$2,430,187 for which a full valuation allowance is provided and another with a liability of \$1,049,660.

2007				
	Canada	US	Other	Total
Future income tax asset (liability):				
Share issue costs	\$ 178,149	\$ -	\$ -	\$ 178,149
Intangible assets	-	35,348	-	35,348
Investment tax credit	2,132,742	-	-	2,132,742
Research & development expenses	1,132,092	-	-	1,132,092
Property and equipment	(323,975)	(261,937)	-	(585,912)
Non-capital losses	1,763,500	376,091	465,977	2,605,568
Net future income tax (liability) asset before valuation allowance	4,882,508	149,502	465,977	5,497,987
Valuation allowance	(4,882,508)	(1,865,772)	(465,977)	(7,214,257)
Net future income tax (liability) asset	\$ -	\$ (1,716,270)	\$ -	\$ (1,716,270)
Current portion	\$ -	\$ -	\$ -	\$ -
Non-current portion	-	(1,716,270)	-	(1,716,270)
Net future income tax (liability) asset	\$ -	\$ (1,716,270)	\$ -	\$ (1,716,270)

In the US there are two separate entities, one with a future tax asset of \$1,865,772 for which a full valuation allowance is provided and another with a liability of \$1,716,270.

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Years ended March 31, 2008 and 2007

6. Property and equipment:

2008	Cost	Accumulated amortization	Net book value
Furniture and equipment	\$ 1,438,276	\$ 718,300	\$ 719,976
Computer hardware	2,095,714	1,350,265	745,449
Computer hardware under capital leases	665,558	468,303	197,255
Leasehold improvements	775,423	591,726	183,697
Equipment installed at hotels	7,560,075	4,994,293	2,565,782
	\$ 12,535,046	\$ 8,122,887	\$ 4,412,159

2007	Cost	Accumulated amortization	Net book value
Furniture and equipment	\$ 1,437,697	\$ 561,346	\$ 876,351
Computer hardware	2,033,745	1,017,520	1,016,225
Computer hardware under capital leases	664,037	402,486	261,551
Leasehold improvements	775,423	437,430	337,993
Equipment installed at hotels	6,819,987	4,114,543	2,705,444
	\$ 11,730,889	\$ 6,533,325	\$ 5,197,564

7. Deferred costs:

	Opening balance March 31, 2007	Additions	Amortization & write downs	Net book value March 31, 2008
VOD installation costs	\$ 3,003,785	\$ 2,188,051	\$ 625,810	\$ 4,566,026

	Opening balance March 31, 2006	Additions	Amortization & write downs	Net book value March 31, 2007
VOD installation costs	\$ 985,133	\$ 2,947,387	\$ 928,735	\$ 3,003,785

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Years ended March 31, 2008 and 2007

8. Intangible assets:

2008	Cost	Accumulated amortization and write-downs	Net book value
Computer software	\$ 1,370,022	\$ 1,265,225	\$ 104,797
Software internally developed	1,726,977	829,390	897,587
Acquired revenue contracts and customer relationships (note 3)	5,999,725	2,630,110	3,369,615
Intellectual property (note 3)	3,406,720	3,406,720	-
	\$ 12,503,444	\$ 8,131,445	\$ 4,371,999

2007	Cost	Accumulated amortization and write-downs	Net book value
Computer software	\$ 1,256,528	\$ 986,430	\$ 270,098
Software internally developed	1,296,440	497,166	799,274
Acquired revenue contracts and customer relationships (note 3)	5,999,725	1,734,696	4,265,029
Intellectual property (note 3)	3,406,720	2,160,928	1,245,792
	\$ 11,959,413	\$ 5,379,220	\$ 6,580,193

9. Operating line of credit

As of March 31, 2007, the Company had an operating credit agreement with a Canadian Chartered bank under which the Company could borrow up to Cdn\$1.0 million on an operating line of credit. On November 30, 2007 the facility was withdrawn. The operating credit facility was collateralized by accounts receivable, paid interest at the bank's prime rate plus 1.5% and was due on demand.

10. Capital lease obligations:

The obligations under capital leases were repayable in blended monthly installments including interest at a weighted annual average rate of 8.8%.

11. Notes payable

	2008	2007
Loans from related parties (Note 19)	\$ 1,806,111	\$ -
Notes payable to Sigpro Shareholders (Note 3)	122,784	317,352
	1,928,895	317,352
Transaction costs	(56,724)	-
	1,872,171	317,352
Current portion	(128,895)	(167,027)
	\$ 1,743,276	\$ 150,325

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Years ended March 31, 2008 and 2007

12. Share capital:

(a) Authorized:

The Company's authorized share capital consists of an unlimited number of Common Shares.

(b) Issued:

	Number of Shares	Amount
Common shares:		
Balance, March 31, 2006	15,768,196	\$ 53,539,301
Reclassified from contributed surplus on exercise of stock options	-	167,393
Cash received on exercise of stock options	55,297	54,700
Balance, March 31, 2007	15,823,493	\$ 53,761,394
Reclassified from contributed surplus on exercise of stock options	-	15,992
Cash received on exercise of stock options	2,359	2,169
Balance, March 31, 2008	15,825,852	\$ 53,779,555

(c) Options:

The Company has a stock option plan (the "Plan") under which the Company may grant options to employees, directors and contractors with the approval of the board of directors. The Plan allows that, at any one time, the total of all outstanding options granted under the Plan is no more than 10% of the issued and outstanding common shares of the Company. The Plan provides for options to be issued with an exercise price set at the "Market Price," defined as the volume weighted average price of the Company's common shares on the Toronto Stock Exchange for the five trading days preceding the grant date. The Plan also provides that the options will be exercisable for a maximum of ten years. Under the Plan, other terms such as the option's vesting schedule are set by the board of directors for each grant.

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Years ended March 31, 2008 and 2007

12. Share capital (continued):

At March 31, 2008 there were 1,576,261 outstanding options to acquire common shares, with exercise prices ranging from \$0.85 to \$10.25 per share, to directors, shareholders and employees of the Company. All but 7,257 of these options expire five years after the grant date or sixty days after termination of the individual's employment with the Company. The remaining 7,257 options expire ten years after grant.

As part of a business combination in the year ended March 31, 2005, the Company issued replacement options to the employees of the acquired company. As of March 31, 2008, 7,257 of these options remain unexercised (March 31 2007 – 9,616). Each option entitles the option holder to receive US\$2.87 and one Company common share in exchange for an exercise price of \$0.47 to \$0.94 per option. These options retain the original vesting schedule and expire 10 years after the original grant date, and are included in the summary disclosure below.

	2008		2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	1,309,461	\$5.15	1,556,717	\$5.16
Granted	380,000	0.85	20,000	1.67
Exercised	(2,359)	0.90	(55,297)	0.99
Forfeited	(110,841)	6.08	(211,959)	5.96
Outstanding, end of year	1,576,261	\$4.05	1,309,461	\$5.15
Exercisable, end of year	1,151,677	\$5.03	934,013	\$5.33

A summary of outstanding options at March 31, 2008 is as follows:

Exercise price	Options outstanding	Expiry dates	Options exercisable	Weighted average contract life (years)
\$ 0.85	380,000	Jan 2013	0	4.8
0.94	7,257	Feb 2014	7,257	5.8
1.30	19,502	Apr 2008 to May 2008	19,502	0.4
1.67	20,000	Oct 2011	20,000	3.5
4.42	300,000	Jan 2010	300,000	1.8
4.50	360,000	Jan 2010	360,000	1.8
4.74	75,000	Jan 2010	75,000	1.8
4.83	70,000	Jul 2010	58,333	2.3
5.10	70,000	Aug 2010	70,000	2.4
5.21	25,000	Mar 2010	25,000	2.0
6.32	115,000	Oct 2010	98,750	2.5
6.38	14,505	Apr 2008 to Jun 2008	14,505	0.1
6.57	50,000	Jan 2011	33,333	2.8
\$10.25	69,997	July 2008 to Sept 2008	69,997	0.4
	1,576,261		1,151,677	

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Years ended March 31, 2008 and 2007

12. Share capital (continued):

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: zero dividend yield; volatility of 125% (2007 - 56%); risk-free rate of 3.7% (2007 - 4.1%); and expected life of 5.0 years (2007 - 5.0 years). The weighted average fair value of options granted during the year was \$0.64 (2007 - \$1.05) per option. For the year ended March 31, 2008, the Company has recorded \$220,120 (2007 - \$565,886) as stock based compensation expense.

13. Contributed surplus:

Changes to the contributed surplus balance are as follows:

Balance at March 31, 2006	\$ 2,399,567
Cash paid to settle Golden Tree options	(83,168)
Reclassification of contributed surplus to share capital on exercise of options	(167,393)
Stock based compensation expense	565,886
<hr/>	
Balance at March 31, 2007	\$ 2,714,892
Cash paid to settle Golden Tree options	(6,580)
Reclassification of contributed surplus to share capital on exercise of options	(15,992)
Stock based compensation expense	220,120
<hr/>	
Balance at March 31, 2008	\$ 2,912,440

14. Commitments:

The Company is committed to minimum annual payments for VOD content royalties and rental of premises and equipment as follows:

2009	\$ 1,197,530
2010	1,590,636
2011	1,647,280
2012	1,040,499
2013	948,191

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Years ended March 31, 2008 and 2007

15. Loss per common share

The following table details the weighted average number of Guest-tek common shares outstanding for the purposes of computing basic and diluted losses per common share for the following periods

	2008	2007
Weighted average number of shares outstanding- basic	15,824,410	15,805,844
Shares assumed issued on exercise of options	88,095	89,329
Shares assumed purchased with proceeds of options assumed exercised	(65,021)	(40,220)
Weighted average number of shares outstanding - diluted	15,847,484	15,854,953

Since the Company had a net loss in both of the years ended March 31, 2008 and 2007, potentially dilutive common shares have been excluded from the diluted loss per share calculation as they would be anti-dilutive.

16. Net change in non-cash working capital components and deferred costs

	2008	2007
Accounts receivable and prepaid expenses	\$ (1,557,613)	\$ 358,285
Inventories	(837,531)	1,007,449
Deferred costs	(1,562,241)	(2,018,652)
Accounts payable, accrued liabilities and customer deposits	5,936,763	3,219,925
Deferred revenue	1,004,128	2,085,110
	\$ 2,983,506	\$ 4,652,117

17. Segmented information:

(a) Geographic Segmentation

The Company operates in one reportable business segment through four different corporate entities. Geographic segmentation of revenues from external customers, property and equipment, goodwill and intangible assets is as follows. The geographic segmentation of revenue from external customers is based on the location of the customer. Other consists of individually immaterial allocations to the United Kingdom, Poland, and countries within the Caribbean and Latin America.

2008	United States	Canada	Other	Total
Revenue	\$ 32,768,380	\$ 1,143,908	\$ 4,223,040	\$ 38,135,328
Property and equipment	280,807	3,933,041	198,311	4,412,159
Goodwill	11,768,224	-	-	11,768,224
Intangible assets	\$ 3,368,290	\$ 1,003,709	\$ -	\$ 4,371,999

2007	United States	Canada	Other	Total
Revenue	\$ 31,709,342	\$ 1,035,234	\$ 2,532,917	\$ 35,277,493
Property and equipment	702,105	4,321,246	174,213	5,197,564
Goodwill	11,768,224	-	-	11,768,224
Intangible assets	\$ 5,488,567	\$ 1,091,626	\$ -	\$ 6,580,193

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Years ended March 31, 2008 and 2007

17. Segmented information (continued):

(b) Product segmentation of revenues from external customers is as follows:

	2008	2007
HSIA installation	\$ 14,335,608	\$ 11,173,568
HSIA recurring	22,765,410	22,230,408
VoIP Product	-	1,191,491
VOD	1,034,310	682,026
	\$ 38,135,328	\$ 35,277,493

18. Financial instruments:

(a) Fair values:

The Company's cash and cash equivalents are designated as held-for-trading and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments. Accounts receivable are designated as loans and receivables and are measured at cost. Accounts payable and accrued liabilities, customer deposits, deferred revenue and the operating line of credit are designated as other liabilities and are measured at cost. The fair values of these assets and liabilities are not considered to be materially different from their carrying values due to their short term to maturity. Financial derivative instruments are not used by the Company.

The estimated fair value of notes payable has been determined based on market information where available. As at March 31, 2008, the estimated fair value of notes payable did not differ materially from its carrying value.

(b) Credit risk:

The Company provides normal terms of credit to its customers thereby incurring credit risk. The Company believes that its evaluation process, relatively short collection terms and the high level of credit worthiness of its customers substantially mitigate its credit risk. The Company routinely charges its customers with a deposit of 25% to 35% of contract value and limits the amount of credit extended, when deemed necessary, but generally requires no collateral from its customers. The Company's maximum credit risk exposure at any given time is the book value of its accounts receivable.

(c) Interest rate risk:

The Company is not exposed to significant interest rate risk.

(d) Foreign currency risk:

The Company sells a significant portion of its products and services to customers in the United States and in other countries. Consequently the Company is subject to foreign currency risk related to transactions denominated in foreign currency.

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Years ended March 31, 2008 and 2007

19. Related parties:

During the year the Company incurred purchases of inventory and service contracts of \$419,250 (2007 - \$Nil) from a Company with a common majority shareholder of which \$57,008 (2007 - \$Nil) is included in accounts payable. These transactions were measured at the amount of consideration established and agreed upon by the related parties and approximated fair value. Fair value was determined using the related party's established price lists.

During the year the Company entered into loan agreements with M.P. Technologies, Inc., its majority shareholder, and with Arnon Levy, the Company's President and Chief Executive Officer.

The M.P. Technologies, Inc. loan amounts to \$1.5 million and Mr. Levy's amounts to \$300,000. Each loan carries an annual interest rate of 10% payable semi-annually. The loans are collateralized by a general security agreement, and are due on March 31, 2010. Transaction costs of \$56,724 were incurred in the execution of these loan agreements.

20. Contingencies:

The Company has been served with two claims by two former employees related to wrongful dismissal, amounting to approximately \$1,650,000. Management believes the claims are without merit.

21. Subsequent event

The Company has entered into a settlement agreement with a supplier related to a claim for breach of contract. Under the terms of the settlement agreement the Company will return all unused inventory from the supplier in exchange the supplier will release its claims to all unpaid invoices. Management has analyzed the potential impact to its financial statements for the three months ended June 30, 2008 and determined the impact will likely be immaterial.