

Consolidated Financial Statements of

MARCH NETWORKS CORPORATION

*April 30, 2008 and 2007
(in Canadian dollars)*



Deloitte & Touche LLP
800 - 100 Queen Street
Ottawa ON K1P 5T8
Canada

Tel: (613) 236-2442
Fax: (613) 236-2195
www.deloitte.ca

Auditors' Report

To the Shareholders of
March Networks Corporation

We have audited the consolidated balance sheets of March Networks Corporation as at April 30, 2008 and 2007 and the consolidated statements of operations, of deficit and other comprehensive income (loss) and of 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 April 30, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
June 11, 2008

MARCH NETWORKS CORPORATION

Consolidated Statements of Operations

years ended April 30, 2008 and 2007

(Canadian dollars, amounts in thousands, except share and per share data)

	<u>2008</u>	<u>2007</u>
Revenue	\$ 94,410	\$ 87,620
Cost of revenue	53,972	41,650
Gross margin	40,438	45,970
Expenses		
Sales, marketing and support	17,402	16,134
Research and development (Note 14)	15,823	9,356
General and administrative	14,625	10,970
Stock-based compensation (Note 12)	2,760	1,485
Amortization of acquired intangibles (Note 18)	810	439
Lawsuit settlement	-	2,263
	51,420	40,647
Earnings before undernoted items	(10,982)	5,323
Interest income	4,124	3,551
Interest expense	(203)	(123)
Earnings from continuing operations, before income taxes	(7,061)	8,751
Income tax expense (recovery) (Note 20)		
Current	93	330
Future	(639)	3,606
Net earnings from continuing operations	(6,515)	4,815
Discontinued operations (Note 19)	-	1,227
NET EARNINGS (LOSS)	\$ (6,515)	\$ 6,042
Basic earnings (loss) per common share (Note 12)		
From continuing operations	\$ (0.38)	\$ 0.29
From discontinued operations	-	0.07
	\$ (0.38)	\$ 0.36
Diluted earnings (loss) per common share (Note 12)		
From continuing operations	\$ (0.38)	\$ 0.27
From discontinued operations	-	0.07
	\$ (0.38)	\$ 0.34
Weighted average common shares outstanding		
Basic	17,194,161	16,714,709
Diluted	18,162,208	17,938,447

The accompanying notes are an integral part of the consolidated financial statements.

MARCH NETWORKS CORPORATION

Consolidated Statements of Deficit and Other Comprehensive Income (Loss)

years ended April 30, 2008 and 2007

(Canadian dollars, amounts in thousands, except share and per share data)

	<u>2008</u>	<u>2007</u>
DEFICIT, BEGINNING OF YEAR	\$ (26,303)	\$ (32,345)
Adjustment due to new accounting policies for financial instruments (Note 3)	(12)	-
NET EARNINGS (LOSS)	<u>(6,515)</u>	<u>6,042</u>
DEFICIT, END OF YEAR	<u>\$ (32,830)</u>	<u>\$ (26,303)</u>
NET EARNINGS (LOSS)	\$ (6,515)	\$ 6,042
Other Comprehensive Income:		
Unrealized foreign currency translation losses of self-sustaining foreign operations (net of taxes of \$nil)	(139)	-
COMPREHENSIVE INCOME (LOSS)	<u>\$ (6,654)</u>	<u>\$ 6,042</u>

The accompanying notes are an integral part of the consolidated financial statements.

MARCH NETWORKS CORPORATION

Consolidated Balance Sheets

as at April 30, 2008 and 2007

(Canadian dollars, amounts in thousands, except share and per share data)

	<u>2008</u>	<u>2007</u>
ASSETS		
Current assets		
Cash	\$ 4,187	\$ 3,526
Short-term investments	59,209	82,305
Restricted cash	2,410	2,775
Accounts receivable	15,432	19,396
Inventories (Note 5)	22,220	11,577
Prepaid expenses and other current assets	2,982	1,778
Future tax assets (Note 20)	4,556	2,198
	<u>110,996</u>	<u>123,555</u>
Restricted cash	-	833
Capital assets, net (Note 6)	2,492	2,720
Intangible assets, net (Note 18)	16,377	3,088
Future tax assets (Note 20)	21,081	21,975
Goodwill (Note 16)	22,048	5,397
	<u>\$ 172,994</u>	<u>\$ 157,568</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 11,576	\$ 5,790
Accrued liabilities (Note 9)	10,236	4,337
Refundable royalty advance	2,410	2,775
Deferred revenue	3,329	7,560
Income taxes payable	422	467
	<u>27,973</u>	<u>20,929</u>
Acquisition escrow	-	833
Deferred revenue	9,048	5,881
Long term compensation (Notes 13 and 17)	451	-
Future tax liabilities (Note 20)	4,362	-
	<u>41,834</u>	<u>27,643</u>
COMMITMENTS & CONTINGENCIES (Note 7 and 10)		
SHAREHOLDERS' EQUITY		
Share capital (Note 12)	156,159	149,647
Contributed surplus (Note 12)	4,102	1,560
Warrants (Note 12)	3,868	5,021
Accumulated other comprehensive income	(139)	-
Deficit	(32,830)	(26,303)
	<u>131,160</u>	<u>129,925</u>
	<u>\$ 172,994</u>	<u>\$ 157,568</u>

The accompanying notes are an integral part of the consolidated financial statements.

Approved by the Board of Directors



Director



Director

MARCH NETWORKS CORPORATION

Consolidated Statements of Cash Flows

years ended April 30, 2008 and 2007

(Canadian dollars, amounts in thousands, except share and per share data)

	<u>2008</u>	<u>2007</u>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net earnings (loss) - continuing operations	\$ (6,515)	\$ 4,815
Net earnings (loss) - discontinued operations	-	1,227
Items not affecting cash		
Amortization of capital assets	1,367	1,020
Amortization of acquired intangibles	810	439
Gain on sale of discontinued operations	-	(1,226)
Stock-based compensation	2,760	1,485
Unrealized foreign exchange loss	(229)	(137)
Future income taxes	(1,756)	3,879
	(3,563)	11,502
Net changes in non-cash items:		
Continuing operations	7,161	(7,536)
Discontinued operations	-	(550)
	3,598	3,416
INVESTING		
Redemption (purchase) of short-term investments	23,725	3,456
Purchase of capital assets	(757)	(2,493)
Acquisition of business (Note 16)	(26,078)	(8,316)
Proceeds from sale of discontinued operations	-	1,226
	(3,110)	(6,127)
FINANCING		
Issuance of share capital, net (Note 12)	314	2,933
	314	2,933
INCREASE/(DECREASE) IN CASH FROM CONTINUING OPERATIONS	802	(455)
INCREASE/(DECREASE) IN CASH FROM DISCONTINUED OPERATIONS	-	677
Effect of foreign exchange gain (loss) on cash and cash equivalents held in foreign currency	(141)	12
CASH, BEGINNING OF YEAR	3,526	3,292
CASH, END OF YEAR	4,187	3,526
Interest paid during the period	\$ 71	\$ 123
Income taxes paid during the period	\$ 46	\$ 377

The accompanying notes are an integral part of the consolidated financial statements.

MARCH NETWORKS CORPORATION

Notes to the Consolidated Financial Statements

for fiscal years ended April 30, 2008 and 2007

(in Canadian dollars, tabular amounts in thousands, except share and per share data)

1. NATURE OF OPERATIONS

March Networks is a leading provider of innovative IP-based video applications used for security surveillance and monitoring. The Company's software and hardware solutions allow businesses to increase operational efficiencies, address risk, and manage assets with an integrated set of video-based intelligence tools that support enhanced decision-making. The Company's products are designed to address the needs of three primary target market segments: Banking, Retail, Transportation (including regional transit authorities, freight rail, first response vehicles and mass transit manufacturers). The remainder of the Company's revenues are derived primarily from the Commercial Industrial sector (including corporate and government facilities, public safety applications and educational institutions).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and balances between the Company and its subsidiaries have been eliminated.

Revenue recognition

Revenue from product sales is recognized upon shipment and when all significant contractual obligations have been satisfied and collection is reasonably assured. Service and installation revenue is recognized as the services are performed. Revenue from maintenance and extended warranty contracts is recognized on a straight-line basis over the terms of the contracts. For contracts involving multiple elements, the Company allocates revenue to each element based on residual fair values. Revenue attributable to undelivered elements is deferred and recognized upon performance.

The Company also makes sales through distributors, certified solution providers and other value added resellers. For products sold through these distribution channels, revenue is recognized at the time of shipment to the distributor provided that all significant contractual obligations have been satisfied and collection is reasonably assured.

The Company does not accept purchase orders or contracts with return clauses although it may, at its sole discretion, choose to accept customer returns. Accruals for potential warranty claims and estimated sales returns are made at the time of shipment and are based on contract terms and prior claims experience.

MARCH NETWORKS CORPORATION

Notes to the Consolidated Financial Statements

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for doubtful accounts

The allowance for doubtful accounts represents the Company's best estimate of probable losses that may result from the inability of its customers to make required payments. The Company regularly reviews accounts receivable and uses judgment to assess the collectibility of specific accounts and based on this assessment, an allowance is maintained for those accounts that are deemed to be uncollectible. For the remaining amounts that are not specifically identified as being uncollectible, an allowance is estimated based on the aging of the accounts, the Company's historical collection experience, and other currently available evidence.

Short-term investments

Short-term investments are investments that are highly liquid have terms of less than one year at the time of acquisition and are not required to meet short-term cash commitments. Short-term investments typically consist of commercial paper, term deposits and bankers' acceptances recorded at fair value.

Inventories

Finished goods are recorded at the lower of cost (first-in, first-out) and net realizable value. Work in process and materials are valued at the lower of cost and replacement cost.

Capital and intangible assets

Capital assets are stated at cost, net of related government assistance and investment tax credits when applicable. Intangible assets are recorded at their fair value at the date of acquisition. Amortization is calculated over the estimated remaining useful life of the assets on a straight-line basis as follows:

Furniture and fixtures	5-8 years
Equipment	3-5 years
Software	2 years
Leasehold improvements	Term of lease
Intangibles	2-7 years
Vehicles	4 years

The Company performs reviews for the impairment of capital assets and intangibles whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is assessed based on the carrying value of the asset and the undiscounted cash flows expected to result from the use and the eventual disposal of the asset. An impairment loss is recognized when the carrying amount is not recoverable and exceeds fair value.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government assistance and investment tax credits

Government assistance and investment tax credits are accounted for using the cost reduction method. Under this method, assistance and credits relating to the acquisition of capital assets are deducted from the cost of the related assets, those relating to current expenditures are included in the determination of net income as a reduction of the expenditures.

Income taxes

Future income tax assets and liabilities are recorded for the expected future income tax consequences of events that have been included in the financial statements or income tax returns. Future income taxes are provided for using the liability method. Under the liability method, future income taxes are recognized for all significant temporary differences between the tax and financial statement bases of assets and liabilities and for certain carry-forward items.

Future income tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of the enactment or substantive enactment.

Foreign currency translation

The Company maintains its accounts in Canadian dollars. The accounts of its foreign subsidiaries are maintained in the local currency where the subsidiary is incorporated. The Company has determined that most of its foreign operating subsidiaries are integrated foreign operations and as a result the Company has used the temporal method to translate the financial statements of these foreign operations into Canadian dollars. Subsidiaries that are deemed to be self-sustaining foreign operations are translated under the current rate method into Canadian dollars. Accordingly, for integrated foreign operations, monetary assets and liabilities are translated using the exchange rates in effect at the consolidated balance sheet date and non-monetary assets and liabilities at historical exchange rates. Revenue and expense items have been translated using average exchange rates prevailing during the year. For self-sustaining foreign operations, assets and liabilities are translated using the exchange rates in effect at the consolidated balance sheet date and revenue and expense items have been translated at the exchange rate in effect on the dates on which the items are recognized in income.

Foreign currency gains and losses resulting from impact of changes in exchange rates on the translation of net foreign currency asset or liability positions into Canadian dollars for integrated foreign operations are reported in income as an element of general and administrative expenses and in other comprehensive income for self-sustaining foreign operations.

Earnings per common share

Basic earnings per common share are computed using the weighted average number of common shares outstanding during the period. Diluted earnings per common share is computed using the treasury stock method and assumes that, if a dilutive effect is produced, all dilutive securities had been exercised at the later of the beginning of period and the security issue date.

MARCH NETWORKS CORPORATION

Notes to the Consolidated Financial Statements

for fiscal years ended April 30, 2008 and 2007

(in Canadian dollars, tabular amounts in thousands, except share and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Stock option plans

The Company applies CICA Handbook Section 3870, *Stock-Based Compensation and Other Stock-Based Payments* (Note 12). Accordingly, the Company uses the fair-value based method to measure stock-based compensation for all stock-based awards made to employees, non-employees and directors of common shares, stock appreciation rights, and awards that call for settlement for cash or other assets. Awards that the Company has the ability to settle in shares are recorded as equity whereas awards that the Company is required to or has a practice of settling in cash are recorded as liabilities. Performance share unit plans are evaluated at their inception and revalued at every reporting period. They are recorded as liabilities on the balance sheet.

Goodwill

Goodwill is initially recorded when the purchase price paid for an acquisition exceeds the fair value assigned to the net identifiable tangible and intangible assets acquired. Goodwill is not amortized, but rather it is periodically assessed for impairment. The Company performs an annual review on the anniversary of the acquisition, or more frequently if indicators of potential impairment exist, to determine if the recorded goodwill is impaired.

Goodwill is tested for impairment in accordance with the CICA Handbook Section 3062, "Goodwill and Other Intangible Assets". The Company's impairment review process compares the fair value to its carrying value.

Use of accounting estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the Company's management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure 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. Estimates are used for, but not limited to, the determination of the allowance for doubtful accounts, inventory allowances, special charges, depreciation and amortization, valuation allowances for income taxes, warranty costs, sales returns, the valuation of stock options and purchase price allocation for acquisition. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary. Actual results could differ from those estimates.

Employee future benefits

The Company records an unfunded liability for *Trattamento di Fine Rapporto* ("TFR"), termination benefits legally required under Italian law to be paid upon termination of all employees regardless of cause. The TFR liability is calculated based on a rate of 13.5% of each employee's basic annual salary for each year of employment, adjusted for inflation on a yearly basis. Under Emerging Issues Committee 134, *Accounting for Severance and Termination Benefits*, liabilities related to employment laws should be measured in accordance with an actuarial present value. The actuary performed a valuation as of April 30, 2008. The pension benefit obligation and pension expense for 2008 is based on the current actuarial valuation.

MARCH NETWORKS CORPORATION

Notes to the Consolidated Financial Statements

for fiscal years ended April 30, 2008 and 2007

(in Canadian dollars, tabular amounts in thousands, except share and per share data)

3. CHANGES IN ACCOUNTING POLICIES

Financial instruments

The Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530; *Comprehensive Income*, Section 3855, *Financial Instruments – Recognition and Measurement*; Section 3861, *Financial Instruments – Disclosure and Presentation* and Section 3865, *Hedges* for fiscal 2008. The adoption of these new financial instruments standards resulted in changes in the accounting for certain financial instruments. The comparative consolidated financial statements have not been restated. The principal changes in the accounting for financial instruments due to the adoption of these accounting standards are described below.

(a) Comprehensive income

The elements of comprehensive income are net earnings as per the Consolidated Statement of Operations and Other Comprehensive Income which includes unrealized gains and losses on foreign currency translation of financial statements of self-sustaining foreign operations, unrealized gains and losses on available for sale financial assets and derivatives designated as cash flow hedges, and other revenues, expenses, gains and losses that under GAAP are elements of comprehensive income but are excluded from the calculation of net earnings.

(b) Financial assets and financial liabilities

Under the new standards, all financial assets and liabilities are initially recorded at fair value. Subsequent measurement is determined based on the classification of the financial instrument including the treatment of gains or losses which are recognized in either net earnings or other comprehensive income. Under Section 3855, financial instruments are classified into one of five categories: held-for-trading financial assets, held-to-maturity investments, loans and receivables, available-for-sale financial assets, or other financial liabilities.

Held-for- trading

Financial assets that are purchased and incurred with the intention of generating profits in the near term are classified as held for trading. These instruments are accounted for at fair value with the change in the fair value recognized in net income during the period. Cash and cash equivalents totalling \$3.5 million and foreign currency derivatives of \$86 thousand were classified as held for trading on May 1, 2007. In addition, the Company elected to classify its short-term investments as held-for-trading and changes in the fair value of the short-term investments were included in investment income during the period. The one time cumulative impact of the remeasurement was a \$12 thousand loss and was recorded in opening deficit.

Held-to-maturity

Financial assets that have a fixed maturity date and which the Company has the positive intention and ability to hold to maturity are classified as held-to-maturity and accounted for at amortized cost using the effective interest rate method. No financial assets were classified as held-to-maturity on May 1, 2007.

MARCH NETWORKS CORPORATION

Notes to the Consolidated Financial Statements

for fiscal years ended April 30, 2008 and 2007

(in Canadian dollars, tabular amounts in thousands, except share and per share data)

3. CHANGES IN ACCOUNTING POLICIES (continued)

Loans and receivables and other financial liabilities

Loans and receivables are accounted for at amortized cost. This classification is consistent with the classification under the prior accounting standards.

Available-for-sale

Financial assets classified as available-for-sale are carried at fair value with the changes in fair value recorded in other comprehensive income. When a decline in fair value is determined to be other-than-temporary, the cumulative loss included in accumulated other comprehensive income is removed and recognized in net income. Gains and losses realized on disposal of available-for-sale securities are recognized in net income. No financial assets were classified as available-for-sale on May 1, 2007.

(c) Embedded derivatives

Derivatives may be embedded in other financial and non-financial instruments (the "host instrument"). Prior to the adoption of the new standards, embedded derivatives were not accounted for separately from the host instrument except in certain circumstances. Under the new standards, embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not held for trading or designated at fair value. These embedded derivatives are measured at fair value with subsequent changes recognized in the Consolidated Statement of Operations as an element of general and administrative expenses. The Company will recognize embedded derivatives in its consolidated balance sheet, if applicable. There were no material derivatives recorded in the financial statements for the year ended April 30, 2008.

(d) Hedge accounting

This optional standard allows entities to designate certain qualifying transactions as hedges for accounting purposes in order to recognize the gains, losses, revenues and expenses associated with the items in a hedging relationship in net income in the same period when they would otherwise be recognized in different periods. The Company would be required to formally document, designate and assess the effectiveness of transactions that receive hedge accounting. Derivatives that qualify as hedging instruments would be designated as either a 'cash flow hedge,' when the hedged item is a future cash flow, or a 'fair value hedge,' when the hedged item is a recognized asset or liability. The unrealized gains and losses related to a cash flow hedge are included in other comprehensive income. For a fair value hedge, both the derivative and the hedged item are recorded at fair value in the Consolidated Balance Sheet and the unrealized gains and losses from both items would be included in earnings.

While the Company uses forward exchange contracts to mitigate risk associated with its net US dollar asset position, the Company does not have any financial instruments that would qualify as a hedge under this Handbook section. Accordingly, there was no impact as a result of adopting Handbook Section 3865. All forward contracts have been marked-to-market at the reporting date and the resulting gain or loss is included in earnings.

MARCH NETWORKS CORPORATION

Notes to the Consolidated Financial Statements

for fiscal years ended April 30, 2008 and 2007

(in Canadian dollars, tabular amounts in thousands, except share and per share data)

3. CHANGES IN ACCOUNTING POLICIES (continued)

(e) Inventory

In June 2007, the CICA issued Section 3031, *Inventories*. This new section establishes that inventories should be measured at the lower of cost and net realizable value, with guidance on the determination of cost including the requirement to allocate costs based on normal production levels. The standard will be applied prospectively commencing in fiscal 2009.

(f) Adoption of International Financial Reporting Standards (IFRS)

The CICA plans to converge Canadian GAAP with IFRS over a transition period expected to end in 2011. The Company is currently assessing the future impact of these new standards on its financial statements.

(g) Accounting changes

In July 2006, the CICA issued revised Section 1506, *Accounting Changes*. This new section establishes criteria for changes in accounting policies along with the accounting treatment and disclosures required upon adoption of new accounting policies, estimates and corrections of errors. The Company adopted this standard for fiscal 2008.

(h) Capital Disclosures

The CICA has issued Section 1535, *Capital Disclosures*. This new section requires the Company to disclose its objectives, policies and process for managing capital and what the Company regards as capital. The Company adopted this standard for fiscal 2008.

(i) Recently issued accounting pronouncement

Financial instruments

The CICA has issued Section 3862, *Financial instruments: disclosure*. This new section establishes additional disclosure requirements including the significance of financial instruments to the Company's financial position and performance and discussion regarding the nature and extent of risks surrounding the company's financial instruments. This standard will be effective commencing in the company's 2009 fiscal year.

4. FINANCIAL INSTRUMENTS

Fair value

The carrying amounts for cash and cash equivalents, short-term investments, accounts receivable and accounts payable and accrued liabilities approximate fair market value because of the short maturity of these instruments.

MARCH NETWORKS CORPORATION

Notes to the Consolidated Financial Statements

for fiscal years ended April 30, 2008 and 2007

(in Canadian dollars, tabular amounts in thousands, except share and per share data)

4. FINANCIAL INSTRUMENTS (continued)

Credit risk

The Company's diverse customer base includes certain large end-user customers that may dominate the Company's revenue in a given period, which can result in a concentration of credit risk at the end of a reporting period. The Company has credit evaluation, approval and monitoring processes to mitigate potential credit risks. Anticipated bad debt loss has been provided for in the allowance for doubtful accounts. As at April 30, 2008, two companies with greater than ten percent concentration in accounts receivable accounted for 31% of the Company's total accounts receivable. (2007 – one; 53%).

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's exposure to foreign currency risk is primarily related to fluctuations in the value of the Canadian dollar relative to that of the United States dollar since the Company's transactions with customers and directly associated costs generally occur in United States dollars. For the year ended April 30, 2008, general and administrative expenses included foreign exchange loss of \$930 thousand (2007 - \$575 thousand).

As at April 30, 2008, the Company had open foreign currency forward contracts that have the effect of fixing the conversion of US \$3 million of the Company's net US dollar asset position to Canadian dollars and US \$1.4 million of the Company's net US dollar asset position to Euros. The contracts mature on or before July 15, 2008 at exchange rates varying between Canadian 0.9842 and 1.0275 and between Euro 1.5624 and 1.5634. As at April 30, 2008, the fair value of these forward contracts resulted in an unrealized gain of approximately \$7 thousand (2007 - \$85 thousand).

Interest rate risk

Short-term investments are invested in securities with varying maturities thus exposing the Company to interest rate. Changes in market interest rates will cause fluctuations in the fair value of the Company's cash equivalents and short-term investments. The Company does not use financial instruments to mitigate this risk.

5. INVENTORIES

	<u>2008</u>	<u>2007</u>
Raw materials	\$ 1,695	\$ 1,631
Work in progress	8	2,324
Finished goods	<u>20,517</u>	<u>7,622</u>
	<u>\$ 22,220</u>	<u>\$ 11,577</u>

MARCH NETWORKS CORPORATION

Notes to the Consolidated Financial Statements

for fiscal years ended April 30, 2008 and 2007

(in Canadian dollars, tabular amounts in thousands, except share and per share data)

6. CAPITAL ASSETS

	2008		
	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	\$ 732	\$ 355	\$ 377
Machinery and equipment	9,138	7,543	1,595
Software	2,340	1,982	358
Leasehold improvements	462	356	106
Vehicles	74	18	56
	\$ 12,746	\$ 10,254	\$ 2,492

	2007		
	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	\$ 577	\$ 207	\$ 370
Machinery and equipment	8,483	7,090	1,393
Software	2,366	1,437	929
Leasehold improvements	435	407	28
Vehicles	-	-	-
	\$ 11,861	\$ 9,141	\$ 2,720

7. COMMITMENTS

The Company has purchase commitments and commitments under operating leases maturing between May 2009 and June 2018.

The future minimum payments in each of the following five fiscal years are as follows:

2009	\$ 2,364
2010	1,414
2011	1,228
2012	1,144
2013	1,123
Thereafter	4,268
	\$ 11,541

MARCH NETWORKS CORPORATION

Notes to the Consolidated Financial Statements

for fiscal years ended April 30, 2008 and 2007

(in Canadian dollars, tabular amounts in thousands, except share and per share data)

8. CAPITAL MANAGEMENT

The Company's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business and provide the ability to continue as a going concern. Management defines capital as the Company's shareholders' equity excluding accumulated other comprehensive income relating to cash flow hedges. The Company does not have any debt and therefore net earnings generated from operations are available for reinvestment in the Company or distribution to the Company's shareholders. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year sustainable profitable growth. The Company does not have a defined share repurchase plan and buy and sell decisions are made on a specific transaction basis and depend on market prices and regulatory restrictions. The Company currently has not paid any dividends to its shareholders.

There were no changes in the Company's approach to capital management during the period. Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements.

9. PRODUCT WARRANTIES

The Company provides all customers with standard warranties on hardware and software for periods up to twenty-four months. Customers can upgrade the standard warranty and extend the warranty up to five years on certain products. The following table details the changes in the warranty liability:

	<u>2008</u>	<u>2007</u>
Balance, beginning of period	\$ 1,526	\$ 607
Warranty costs incurred	(4,484)	(1,995)
Provision for warranties issued	7,342	2,914
Balance, end of period	<u>\$ 4,384</u>	<u>\$ 1,526</u>

10. CONTINGENCIES

A percentage of the Company's contracts are based on a fixed price for the provision of a specified service against an agreed delivery schedule. There is a risk in all fixed-price contracts that the Company will be unable to deliver the system within the time specified and at the expected cost. The Company employs design and testing processes and practices, which include a wide range of development and on-site acceptance tests with criteria and requirements jointly developed with the customer. However, non-performance could result in breach of contract, resulting in a possible termination of the contract by the customer, liquidated damages, right of return and/or additional rectification costs to satisfy Company's obligations. Program management methodologies have been implemented to adequately manage each project and any customer change, and to identify and mitigate potential risks. Management is not aware of any material breaches that would result in the Company incurring unanticipated costs and liabilities.

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10. CONTINGENCIES (continued)

From time to time, the Company is a defendant of lawsuits and party to other claims or potential claims that have arisen in the normal course of its business. The Company recognizes a provision for estimated loss contingencies when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. In the opinion of the Company, any monetary liabilities or financial impacts of such lawsuits and claims or potential claims would not be material to the consolidated financial position of the Company or the consolidated results of its operations.

11. BANK CREDIT FACILITY

As at April 30, 2008, the Company has a line of credit available of \$25 million. The Company is required to meet certain financial covenants under the terms of its credit facility agreement. As collateral for its bank indebtedness, the Company has given the bank a general security agreement representing a first charge over all of the Company's assets. Interest is charged on indebtedness at prime.

12. SHARE CAPITAL

Authorized

Unlimited number of common shares

	<u>Number</u>	<u>Amount</u>
Issued		
Shares outstanding at April 30, 2006	16,574,973	\$ 146,039
Shares issued for cash	295,490	2,933
Transfer from contributed surplus relating to option exercises	-	675
Shares outstanding at April 30, 2007	16,870,463	\$ 149,647
Shares issued for cash	51,780	314
Shares issued from exercised warrants	230,528	1,153
Shares issued for Directors' services	5,317	30
Shares issued for business acquisition	1,019,252	5,006
Transfer from contributed surplus relating to option exercises	-	9
Shares outstanding at April 30, 2008	<u>18,177,340</u>	<u>\$ 156,159</u>

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12. SHARE CAPITAL (continued)

Warrants

The Company had 737,145 outstanding warrants (2007 – 665,275) issued to Her Majesty the Queen in Right of Canada to acquire an equivalent number of common shares for no additional consideration. These warrants relate to 967,673 warrants that were issued with respect to a \$5 million investment received from the Government of Canada under the Technology Partnerships Canada program. The number of warrants issued was determined using fair market value of the common shares on the date of issue and vest equally over four year from date of issuance. These warrants have no expiry date and may be exercised at an accumulative rate of up to 6.25% of the number of warrants issued, from time to time, for each three-month period that commenced October 1, 2004. During year ended April 30, 2008 230,528 warrants were exercised (2007 – nil). At April 30, 2008, 663,978 warrants are exercisable (2007 – 665,275).

Stock option plan

The Company's Option Plan is administered by the Compensation Committee of the Board of Directors with respect to all participants except director participants, for which the Option Plan is administered by the Board of Directors. In administering the Option Plan, the Compensation Committee or the Board of Directors, as applicable, may determine the terms relating to each option, including the number of shares subject to each option, exercise price, in accordance with the terms of the Option Plan, and expiration date of each option, and the extent to which each option is exercisable during the term of the option.

The maximum number of common shares available for issuance upon the exercise of options granted under the Option Plan is fifteen percent (15%) of the Company's issued and outstanding common shares from time to time, subject to certain conditions. The maximum number of common shares reserved for issuance pursuant to options granted to insiders under the Option Plan may not exceed ten percent (10%) of the then outstanding common shares of the Company.

The Option Plan provides that twenty-five percent (25%) of the common shares subject to an option shall vest and become exercisable on the first (1st) anniversary of the date of grant of the option and shall remain exercisable to and including the fifth (5th) anniversary of the date of grant of the option. In addition, it provides that 2.08333% of the option shares shall vest and become exercisable monthly, commencing one month after the first (1st) anniversary of the date of grant and monthly thereafter to and including the fourth (4th) anniversary of the date of grant, and shall remain exercisable to and including the fifth (5th) anniversary of the date of grant. Options granted are priced at no less than the volume weighted average trading price of the common shares on the TSX, or another stock exchange where the majority of the volume and value of the common shares occurs, for the five trading days immediately preceding the date of grant. No option may be exercised after the tenth anniversary of the date of grant.

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12. SHARE CAPITAL (continued)

A summary of the status of the Company's stock option plan as of April 30, 2008 is presented below:

	Number of Options	Weighted Average Exercise Price
Options outstanding, April 30, 2006	847,896	\$ 10.06
Granted	846,100	\$ 17.60
Exercised	(285,871)	\$ 9.01
Cancelled	(113,188)	\$ 15.28
Options outstanding, April 30, 2007	1,294,937	\$ 14.76
Granted	114,000	\$ 10.86
Exercised	(51,780)	\$ 5.07
Cancelled	(149,057)	\$ 17.46
Options outstanding, April 30, 2008	1,208,100	\$ 14.47

Stock options outstanding as at April 30, 2008 are as follows:

Options Outstanding				Exercisable	
Range of exercise Price	Number	Weighted average exercise price	Remaining contractual term	Number	Weighted average exercise price
\$ 5.00 – 12.00	567,053	\$ 8.57	3.0 years	436,753	\$ 8.56
\$ 12.34 – 18.88	207,472	\$14.34	2.6 years	112,491	\$ 14.12
\$ 20.04 – 22.94	394,075	\$ 21.40	3.2 years	99,644	\$ 21.40
\$ 26.92 – 35.93	39,500	\$ 30.84	2.7 years	22,047	\$ 30.60
	1,208,100	\$ 14.47	3.0 years	670,935	\$ 12.12

Stock-based compensation

Stock-based compensation expense associated with outstanding unvested options during fiscal 2008 was \$2.6 million (2007 – \$1.5 million) and the contributed surplus associated with stock-based compensation expense at April 30, 2008 is \$4.1 million. Stock based compensation associated with the performance share units for the year ended April 30, 2008 was \$157 thousand (2007 - \$nil).

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12. SHARE CAPITAL (continued)

Stock-based compensation (continued)

Previously recognized expense of \$9 thousand (2007 - \$675 thousand) relating to options exercised during the period has been transferred from contributed surplus to share capital.

	Twelve months ended April 30,	
	2008	2007
Number of options granted	114,000	846,100
Weighted average Black-Scholes value of each option	\$ 4.07	\$ 7.48
Assumptions		
Risk free interest rate	3.70%	4.20%
Expected life in years	5	5
Expected dividend yield	0%	0%
Volatility	34.70%	35.20%
Forfeitures	11.41%	0%

Earnings per share

Options and warrants that are anti-dilutive because the exercise price is greater than the average market price of the common shares are not included in the computation of diluted earnings per share. As at April 30, 2008, 948,946 stock options were excluded from the calculation of diluted earnings per share because they were anti-dilutive (2007 – 203,900).

	2008	2007
Weighted average number of common shares – basic	17,194,161	16,714,709
Dilutive effect of stock options	115,638	256,065
Dilutive effect of warrants	852,409	967,673
Weighted average number of common shares – diluted	18,162,208	17,938,447

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13. LONG TERM COMPENSATION

Performance share unit plan

The Company instituted a Performance Share Unit ("PSU") incentive program in the second quarter ended October 31, 2007 whereby employees may be awarded PSUs which entitle them to receive a cash payment equal to the value of one common share of March Networks Corporation per PSU at the time of vesting. All PSUs vest on the third anniversary of the award date, unless otherwise approved by the Board or its Compensation Committee, subject to the attainment of specified performance goals during the vesting period. The Board or its Compensation Committee will issue performance goals based upon corporation wide, divisional, or any other basis that they may determine to be relevant to aligning the Company's interests with those of its shareholders. The performance goal for the PSUs issued in the third quarter of fiscal 2008 is for the Company's volume weighted average stock price return for the three-year period ending April 30, 2010 to exceed the performance of the TSX Small Cap Index for the same period.. If March Networks' performance is below 75% of the performance of the Small Cap index the units awarded will be forfeited; if the return falls short of the return of the index by less than 25% then 50% of the award will be forfeited. If March Networks' performance exceeds the performance of the TSX Small Cap Index by more than 50%, the Company will increase the award by 50%.

Included in stock based compensation, the Company recorded compensation expense of \$157 thousand for the year ended April 30, 2008 (2007 – nil) related to 127,533 outstanding PSUs, all of which were issued in August 2007. Forfeiture assumptions related to the PSUs for the year ended April 30, 2008 was 11.16% over the life of the grant.

14. RESEARCH AND DEVELOPMENT

Government and other assistance

Certain assistance agreements include provisions for repayment of the assistance in the form of a royalty on sales of the products resulting from the assistance. The Company received \$745 thousand assistance during 2008 (2007 - nil) which is recorded as a reduction of research and development expense. As at April 30, 2008, \$400 thousand of funding received in prior years is subject to repayment provisions to the earlier of 5 years or a maximum repayment of \$780 thousand. As at April 30, 2008, \$349 thousand (2007 - \$144 thousand) of the funding had been repaid.

Tax credits

The Company's research and development expenses are recorded net of associated tax credits which amounted to \$1.1 million in 2008 (2007 – \$1.3 million).

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15. RELATED PARTY TRANSACTIONS

All related party transactions are reflected under terms and conditions reflecting prevailing market conditions at the transaction date.

The Company leases premises from a real estate company controlled by the Company's principal shareholder. During 2008, the Company paid \$618 thousand (2007 - \$613 thousand) of rent for the leased premises. The Company also paid operating costs associated with this lease of \$636 thousand (2007 - \$578 thousand). The Company had \$71 thousand owing relating to rent and operating costs associated with these leased premises at April 30, 2008 and no amounts owing at April 30, 2007. The Company leased premises from a real estate company controlled by the vendors of Cieffe S.p.A and Insignis Technologies S.r.l.. During 2008, the Company paid \$23 thousand (2007 - nil) of rent for the leased premises. The Company had \$102 thousand owing relating to rent and operating costs associated with these leased premises at April 30, 2008.

The Company also purchased products and services from seven (2007 - six;) companies controlled or influenced by the Company's principal shareholder. Total product and service purchases during 2008 were \$19.7 million (2007 - \$28.0 million) and the balance owing for product purchases at April 30, 2008 was \$1.5 million (2007 - \$1.9 million) and is included in accounts payable and accrued liabilities.

The Company was reimbursed for services and expenses from one (2007 - two) companies over which the Company's principal shareholder has significant influence. During 2008, the Company received \$1.2 million (2007 - \$1.3 million). The balance owed to the Company at April 30, 2008 was \$274 thousand (2007 - \$109 thousand) and is included in accounts receivable and other current assets.

The Company recognized revenues from two (2007 - one) companies controlled by the Company's principal shareholder. The total revenues recognized during the year were \$108 thousand (2007 - \$68 thousand). The balance owed to the Company at April 30, 2008 was \$83 thousand (2007 - \$24 thousand) and is included in accounts receivable.

16. ACQUISITIONS

Cieffe S.p.A

On March 31, 2008 the Company acquired Cieffe S.p.A and its related company Insignis Technologies S.r.l (Cieffe). Cieffe, based in Milan, Italy, develops high performance IP video surveillance solutions used by enterprise-class organizations across Europe, the Middle East and Asia Pacific. The agreement calls for the payment by March Networks of €14.0 million (\$22.6 million) in cash and 1,019,252 common shares, issued on March 31, 2008, plus any amounts paid in respect of a two year revenue-based earn-out of up to €10 million. The earn-out provides for additional cash payments of between €2.5 million and €5 million for each of the two years during the earn-out period ending April 30, 2010 based on achieving revenue growth for Cieffe products in these years exceeding 40% as compared to the prior year. For purposes of the first earn-out payment the first year's revenue will be compared to the revenue for the calendar year ended December 31, 2007. The Company has not recognized any contingent consideration associated with the earn-out since the outcome cannot be determined beyond a reasonable doubt.

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16. ACQUISITIONS (continued)

This acquisition was accounted for using the purchase method of accounting in accordance with CICA Handbook section 1581, *Business Combinations* ("HB 1581"). The Company has determined that Cieffe will be accounted for as a self-sustaining subsidiary, commencing March 31, 2008.

The aggregate purchase consideration for Cieffe was approximately \$28.6 million including \$22.6 million dollars paid in cash and issuance of common shares of \$5.0 million (1,019,252 common shares).

In the allocation of the purchase price, \$16.7 million was assigned to goodwill. This represents the excess of the aggregate purchase price paid for Cieffe over the fair value of the net tangible and identifiable intangible assets acquired. Goodwill will not be amortized but will be subject to annual impairment testing in accordance with the Company's accounting policy. The goodwill recorded as a result of the acquisition is not tax deductible.

Management is currently carrying out detailed assessments of the assets acquired and liabilities assumed and changes may be made to the preliminary purchase price equation.

In accordance with HB 1581, the total consideration paid for this acquisition was allocated to the assets and liabilities based upon their estimated fair value at the date of acquisition, as noted below:

Assets purchased	\$
Current assets	5,603
Inventory	4,493
Capital assets	388
Intangible assets	14,099
Goodwill	16,730
	<hr/>
	41,313
Liabilities assumed	
Current liabilities	7,996
Future tax liability	4,427
Long term compensation	291
	<hr/>
	12,714
Purchase price	<hr/>
	\$ 28,599
	<hr/>
Purchase price consideration	\$
Cash	22,637
Common shares	5,006
Acquisition costs	956
	<hr/>
	\$ 28,599
	<hr/>

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16. ACQUISITIONS (continued)

Intangibles associated with the acquisition of Cieffe are as follows:

	<u>Cost</u>	<u>Amortization Period</u>
Acquired technology	\$ 12,515	5 Years
Contractual relationship	824	3 Years
Customer relationships	598	2 Years
Brand name	162	2 Years
	<u>\$ 14,099</u>	

Trax Retail Solutions Inc.

On July 12, 2006, the Company acquired the net assets of Trax Retail Solutions, Inc. ("Trax") and its affiliated company. The total purchase price was \$7.8 million USD cash plus assumed liabilities and an earn-out component. Trax was a leading provider of enterprise software for loss prevention, store operations control and profit optimization solutions within the retail sector, based in Scottsdale, Arizona.

The Company holds US\$2.4 million (CDN\$2.4 million) in escrow, in accordance with the Trax acquisition agreement, in order to satisfy any repayment of the advances that is demanded by the partner. Any remainder of such escrow amount will be paid to the vendors. The Company has recorded the refundable royalty liability, and the associated escrow of \$2.4 million, in current liabilities and current assets, respectively. The Company held US\$750,000 in escrow in connection with the Trax transaction for eighteen months from the date of closing of the transaction (July 12, 2006) as a general holdback to address any unrecorded net liabilities associated with the assets acquired that had not been identified by the vendors at the time of the transaction and to fund any indemnification claims by the Company pursuant to the acquisition agreement. This general holdback was released during fiscal 2008.

17. EMPLOYEE FUTURE BENEFITS

Employee future benefits is comprised of the Cieffe unfunded liability for termination benefits legally required under Italian law to be paid upon termination of all employees, regardless of the cause. As of April 30, 2008, cost of post-employment benefits are being accrued over the working lives of its employees, at a rate of 13.5% of an employee's basic salary for each year of employment adjusting each prior year amount for inflation on a yearly basis. The accrued benefit obligation is extrapolated from an actuarial valuation as of April 30, 2008. The most recent actuarial valuation of the pension plans for funding purposes was as of April 30, 2008, and the next required valuation is as of April 30, 2011.

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17. EMPLOYEE FUTURE BENEFITS (continued)

The changes in the benefit obligations and the funded status of the defined benefit plans were as follows:

	2008
Change in benefit obligations	
Benefit obligations, beginning of year	-
Current service cost	8
Interest cost	2
Actuarial (gains) losses	-
Benefits payments	-
Transfer in / acquisition	283
	<hr/>
Benefit obligations, end of year	293
	<hr/>
Funded status	
Deficit for funded plan	293
Unamortized net actuarial (gain) loss	-
Accrued benefit liability (asset)	293
	<hr/>

The significant assumptions adopted in measuring the Companies' pension and other benefit obligations were as follows:

	2008
Accrued benefit obligation as at April 30 :	
Discount rate	6.00%
Rate of compensation increase	3.44%
Pension expense for year ended April 30 :	
Discount rate	6.00%
Rate of compensation increase	3.44%

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17. EMPLOYEE FUTURE BENEFITS (continued)

The expense recognized in the income statement for the year ended April 30, 2008 is \$10 thousand (2007- nil).

	<u>2008</u>
Current service cost	\$ 8
Interest Cost	<u>2</u>
Total expense recognized in the year ended	<u>\$ 10</u>

18. INTANGIBLE ASSETS

The amortization of acquired technology and contractual relationships is recorded as amortization of acquisition-related intangibles.

	<u>April 30, 2008</u>			
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Amortization Period</u>
Acquired technology	\$ 15,688	\$ 1,026	\$ 14,662	5-7 Years
Contractual relationship	994	125	869	3 Years
Customer relationships	782	91	691	2-5 Years
Brand name	162	7	155	2 Years
	<u>\$ 17,626</u>	<u>\$ 1,249</u>	<u>\$ 16,377</u>	

	<u>April 30, 2007</u>			
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Amortization Period</u>
Acquired technology	\$ 3,173	\$ 364	\$ 2,809	7 Years
Contractual relationship	170	30	140	3 Years
Customer relationships	184	45	139	5 Years
	<u>\$ 3,527</u>	<u>\$ 439</u>	<u>\$ 3,088</u>	

The estimated amortization expense related to intangible assets in existence as at April 30, 2008, over the next five years, is as follows:

2009	\$ 3,705
2010	3,627
2011	3,245
2012	2,963
2013 and thereafter	<u>2,837</u>
	<u>\$ 16,377</u>

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19. DISCONTINUED OPERATIONS

Emergency Response Systems ("ERS") Business Unit

In July 2003, the Company sold specific assets pertaining to the ERS business unit. The purchase price consisted of cash of \$1.2 million and an earn-out provision based on future revenue that was estimated by the Company to be \$794 thousand over a three year period. No earn-out has been received by the Company in fiscal 2008 (2007 - \$86 thousand) bringing the total earn-out received to \$1.1 million. The Company recorded nil gains from discontinued operations in fiscal 2008 (2007 - \$86 thousand) to reflect the excess of the earn-out received.

March Healthcare Corporation

The Company announced on November 14, 2006 that it had sold the assets of its eHealth unit for US\$1 million in cash to an unrelated third party on November 9, 2006. The sale resulted in a net of tax gain from discontinued operations of approximately \$1.1 million in the third quarter of fiscal 2007.

Details of the eHealth operations are as follows:

	<u>2008</u>	<u>2007</u>
Revenue	\$ -	\$ -
Cost of sales	-	-
Gross margin	-	-
Sales, marketing and support	-	-
General and administrative	-	-
Research and development	-	-
Gain (loss) from operations	-	-
Provision for disposal of operations	-	-
Gain on sale of business	-	1,140
Net gain (loss)	<u>\$ -</u>	<u>\$ 1,140</u>

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20. INCOME TAXES

The income tax (recovery) expense reported differs from the amount computed by applying statutory rates to earnings before discontinued operations for the following reasons.

	<u>2008</u>	<u>2007</u>
Statutory tax rate	33%	36.12%
Expected tax (recovery) expense	\$ (2,343)	\$ 3,161
Stock-based compensation and other permanent differences	905	586
Foreign tax rate differential and other	120	(76)
Impact of rate reduction on value of future income tax assets	772	265
Income tax (recovery) expense	<u>\$ (546)</u>	<u>\$ 3,936</u>
Current	\$ 93	\$ 330
Future	\$ (639)	\$ 3,606

The future tax assets and liabilities of the Company are comprised of the following components:

	<u>2008</u>	<u>2007</u>
Investment tax credits	\$ 7,013	\$ 5,946
Non-capital tax loss carryforwards	4,063	7,267
Unclaimed research and development expenses	10,464	9,194
Difference between book and tax basis of fixed assets	1,895	1,597
Deductible reserves	4,139	1,697
Deductible share issuance costs	482	1,014
Intangible property	(4,362)	-
Total future tax assets, net	23,694	26,715
Valuation allowance	(2,419)	(2,542)
	<u>\$ 21,275</u>	<u>\$ 24,173</u>
Future tax assets		
Short-term	\$ 4,556	\$ 2,198
Long-term	21,081	21,975
	25,637	24,173
Future tax liabilities		
Long-term	(4,362)	-
	<u>\$ 21,275</u>	<u>\$ 24,173</u>

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20. INCOME TAXES (continued)

In assessing the value of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will be realized. The ultimate realization of future tax assets is dependent upon future taxable income. Management considers the likelihood of future profitability, the character of the tax assets and any applicable tax planning strategies to make this assessment. To the extent that management believes that the realization of future tax assets do not meet the more likely than not realization criterion, a valuation allowance is provided against the future tax assets.

Based on management's best estimates of future taxable income, the Company has reflected the value of certain future tax assets that are more likely than not to be realized. Management reviews its estimate of its ability to realize future tax assets on an ongoing basis.

The valuation allowance at April 30, 2008 relates primarily to the treatment of certain government investment in the Company in prior years. The Company has received an assessment from the Canada Revenue Agency which proposes to change the way in which the investment is taxed. The Company has formally objected to this assessment. However, as the ultimate tax treatment of the investment is not known at this time, the amounts have been fully provided for in the valuation allowance at year-end.

At April 30, 2008, the Company has approximately \$2.2 million and \$1.2 million of federal and provincial tax loss carryforwards respectively, which expire during the years 2009 to 2014. In addition, the Company has approximately \$8.2 million of tax loss carryforwards in foreign jurisdictions, most of which expire during the year 2028.

The Company also has approximately \$8.9 million of investment tax credits available to reduce Canadian income taxes otherwise payable in future years. These tax credits expire during the years 2009 to 2028. The investment tax credits and related research and development deductions have been claimed on management's interpretation of the applicable legislation of the Income Tax Act of Canada. These claims are subject to audit by the Canada Revenue Agency and the amount of deductions and credits allowed may be subject to change. In management's view, the treatment of research and development expenses for income tax purposes is appropriate.

21. SEGMENT INFORMATION

General description

The Company's Chief Executive Officer ("CEO") has been identified as the chief operating decision maker. The CEO evaluates the performance of the segments and allocates resources based on information provided by the Company's internal management system. The Company fully dedicates its resources and efforts to one sole business segment.

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21. SEGMENT INFORMATION (continued)

Geographic information

Revenues from external customers are attributed to geographic areas based on location of the customers. The following table sets forth external revenue by geographic areas:

	<u>2008</u>	<u>2007</u>
Canada	\$ 4,248	\$ 6,378
United States	70,665	71,566
Latin America	8,277	6,226
Asia Pacific	8,879	2,388
Europe, Middle East and Africa	2,341	1,062
	<u>\$ 94,410</u>	<u>\$ 87,620</u>

Sector information

Revenues from external customers are attributed to sectors. The following table sets forth external revenue by sector:

	<u>2008</u>	<u>2007</u>
Retail – Wal-Mart	\$ 28,583	\$ 39,589
Transportation	24,307	11,473
Banking	23,846	24,290
Commercial/Industrial/Other	9,054	6,628
Retail - Other	8,620	5,640
	<u>\$ 94,410</u>	<u>\$ 87,620</u>

Concentrations

The Company sells its products and services to a broad set of enterprises ranging from large, multinational enterprises, to small and mid-sized enterprises, banks, transportation authorities, corporate and government facilities, law enforcement and public safety agencies, and educational institutions. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral for its accounts receivable. In some cases, the Company will require payment in advance or security in the form of letters of credit or third-party guarantees.

The Company had two customers that accounted for greater than ten percent of revenue for a total of 42% during the year ended April 30, 2008 (2007 – one 45%).

22. CHANGE IN ESTIMATES

During fiscal 2008, the Company recorded a liability of \$3.2 million in retrofit charges to address product design issues in certain of the Company's Transportation products. \$2.4 million of this liability remains as at April 30, 2008 (2007 – nil).