

GUESTLOGIX INC.
Consolidated Financial Statements
Years ended November 30, 2007 and 2006

GUESTLOGIX INC.

INDEX

November 30, 2007 and 2006

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DANZIGER HOCHMAN
PARTNERS LLP

AUDITORS' REPORT

To the Shareholders of GuestLogix Inc.

We have audited the consolidated balance sheet of GuestLogix Inc. as of November 30, 2007 and the consolidated statements of operations, shareholders' equity and cash flows for the year 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 audit.

We conducted our audit 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 December 31, 2007 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

The comparative figures as at November 30, 2006 and for the year then ended are based on financial statements which were reported on by another firm of chartered accountants who expressed an opinion without reservation in their report dated July 11, 2007.

Danziger Hochman Partners LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Ontario
February 20, 2008

GUESTLOGIX INC.
Consolidated Balance Sheets
As at November 30, 2007 and 2006

Statement I

	2007	2006
ASSETS		
Current		
Cash	\$ 5,989,024	\$ 207,072
Accounts receivable	668,187	195,627
Prepaid expenses and other assets	113,470	7,735
Investment tax credits receivable (note 2)	326,667	160,000
Current portion of net finance receivable (note 4)	1,743,890	1,272,222
	8,841,238	1,842,656
Restricted cash (note 3)	1,025,390	1,253,861
Net finance receivable (note 4)	1,278,621	1,699,610
Capital assets deployed (note 4)	3,058,770	2,849,866
Property and equipment (note 5)	56,217	-
	\$14,260,236	\$ 7,645,993
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 2,065,176	\$ 629,362
Current portion of obligations under capital lease (note 7)	1,038,265	725,450
Notes payable (note 9)	100,000	755,093
Convertible loans from shareholders (note 6(a))	366,872	460,490
Loans from shareholder (note 6(b))	20,461	-
Convertible debentures (note 12)	-	648,893
Deferred revenue (note 8)	1,808,257	922,187
	5,399,031	4,141,475
Loans from shareholder (note 6(b))	-	61,383
Deferred revenue (note 8)	1,390,343	2,102,613
Obligations under capital lease (note 7)	723,261	1,103,105
	7,512,635	7,408,576
SHAREHOLDERS' EQUITY		
Share capital (note 10(b))	12,084,398	860,753
Shares to be issued (note 10(f))	-	470,746
Contributed surplus (note 10(d))	802,372	588,902
Conversion rights (note 6(a))	1,619,415	772,701
Warrants (note 10(e))	1,146,855	738,659
Share issuance costs (10(b))	(2,498,426)	-
Deficit	(6,407,013)	(3,194,344)
	6,747,601	237,417
Guarantees (note 16) Commitments (note 18)		
Contingencies (note 20) Subsequent events (note 21)		
	\$14,260,236	\$ 7,645,993

On behalf of the Board:

GUESTLOGIX INC.
Consolidated Statements of Operations
Years Ended November 30, 2007 and 2006

Statement II

	2007	2006
REVENUE	\$ 5,430,154	\$ 1,062,081
OPERATING EXPENSES		
Cost of equipment sales	1,260,005	-
Research and development	677,137	690,687
Sales and marketing	768,478	557,067
General and administrative	2,435,976	833,840
Stock-based compensation	256,181	3,241
Amortization of capital assets deployed	1,412,073	482,547
Amortization of property and equipment	9,352	6,726
	6,819,202	2,574,108
LOSS FROM OPERATIONS	(1,389,048)	(1,512,027)
OTHER INCOME (EXPENSES)		
Other income	-	26,813
Foreign exchange gain (loss)	(104,649)	27,759
Interest earned	198,395	24,624
Interest expense	(495,134)	(202,528)
Interest accretion	(1,930,047)	(537,814)
Debt extinguishment	-	(116,607)
NET LOSS FOR THE YEAR AND COMPREHENSIVE INCOME	(\$ 3,720,483)	(\$ 2,289,780)
LOSS PER SHARE (note 11)	(\$ 0.11)	(\$ 0.08)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES	34,069,327	27,480,992

Statement III

GUESTLOGIX INC.
Consolidated Statements of Shareholders' Equity
 Years Ended November 30, 2007 and 2006

	Number of Shares	Share Capital	Shares to be Issued	Contributed Surplus	Conversion Rights	Warrants	Share Issuance Costs	Deficit	Shareholders' Equity
Balance, November 30, 2005	24,553,686	\$ 300,001	\$ -	\$ 585,661	\$ -	\$ -	\$ -	(\$ 904,564)	(\$ 18,902)
Issued for cash, private placement	3,092,785	556,752	-	-	-	-	-	-	556,752
Issued for services	22,281	4,000	-	-	-	-	-	-	4,000
Shares to be issued on settlement of loans	-	-	470,746	-	-	-	-	-	470,746
Stock-based compensation expense Issued in relation to shareholder convertible loan	-	-	-	3,241	-	-	-	-	3,241
Issued in relation to notes payable	-	-	-	-	581,976	355,596	-	-	937,572
Issued in relation to convertible loans	-	-	-	-	190,725	237,806	-	-	237,806
Net loss for the year and comprehensive income	-	-	-	-	-	145,257	-	(2,289,780)	335,982
									(2,289,780)
Balance, November 30, 2006	27,668,752	860,753	470,746	588,902	772,701	738,659	-	(3,194,344)	237,417
Impact of change of accounting for financial instruments (note 1(p))	-	-	-	-	-	-	-	507,814	507,814
Issued in exchange for Growthgen shares	1,666,667	100,046	-	-	-	-	-	-	100,046
Issued for cash	12,857,200	9,000,040	-	-	-	-	(2,021,896)	-	6,978,144
Issued on settlement of convertible notes	1,235,911	728,287	-	-	-	-	-	-	728,287
Issued for cash, private placement	159,747	110,000	-	-	-	-	-	-	110,000
Issued for compensation	79,194	55,346	-	-	-	-	(55,346)	-	-
Settlement of 'shares to be issued'	705,411	470,746	(470,746)	-	-	-	-	-	-
Stock-based compensation expense	-	-	-	222,445	-	-	-	-	222,445
Share purchase warrants exercised	447,750	136,274	-	-	-	(46,724)	-	-	89,550
Share purchase options exercised	145,013	47,906	-	(8,975)	-	-	-	-	38,931
Issued on settlement of convertible notes	2,892,354	575,000	-	-	-	-	-	-	575,000
Extension of term to maturity of convertible debentures	-	-	-	-	846,714	-	-	-	846,714
Issuance of warrants	-	-	-	-	-	454,920	(421,184)	-	33,736
Net loss for the year and comprehensive income	-	-	-	-	-	-	-	(3,720,483)	(3,720,483)
Balance, November 30, 2007	47,857,999	\$12,084,398	\$ -	\$ 802,372	\$1,619,415	\$1,146,855	(\$2,498,426)	(\$6,407,013)	\$6,747,601

	2007	2006
CASH PROVIDED BY (USED) IN OPERATING ACTIVITIES		
Net loss for the year	(\$3,720,483)	(\$2,289,780)
Items not involving cash:		
Amortization of capital assets deployed	1,412,073	482,547
Amortization of capital assets	9,352	6,726
Accrual of participating amount (note 9)	100,000	-
Interest accretion on notes payable (notes 6(a) and 12)	1,930,047	537,814
Debt extinguishment expense	-	116,607
Stock-based compensation expense	256,181	3,241
Changes in non-cash operating working capital (note 14)	(667,784)	371,324
	(680,614)	(771,521)
FINANCING ACTIVITIES		
Proceeds from issuance of notes payable	-	1,343,359
Proceeds from issuance of convertible debenture	-	929,067
Proceeds from issuance of common shares	7,088,144	560,752
Proceeds from exercise of options and warrants	128,481	-
Proceeds from issuance of convertible loans from shareholders	-	952,293
Repayment of capital lease obligations	(880,333)	(96,771)
Repayment of notes payable	(755,093)	(467,074)
Repayment of loans from shareholder	(40,921)	(10,600)
	5,540,278	3,211,026
INVESTING ACTIVITIES		
Investment in collateral security (note 3)	228,471	(1,106,246)
Purchase of equipment for deployment	(644,312)	(1,914,245)
Proceeds from issuance common shares for Growthgen	100,046	-
Payments received on sales-type leases	1,481,757	602,515
Additions to property and equipment	(65,569)	-
	1,100,393	(2,417,976)
FOREIGN EXCHANGE LOSS ON CASH HELD IN FOREIGN CURRENCY	(178,105)	(31,891)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,781,952	(10,362)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	207,072	217,434
CASH AND CASH EQUIVALENTS, END OF YEAR	\$5,989,024	\$ 207,072
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 531,667	\$ 205,997
Income taxes paid	-	-
SUPPLEMENTAL DISCLOSURES RELATING TO NON-CASH OPERATING AND INVESTING ACTIVITIES		
Additions to capital lease obligations to finance the acquisition of capital assets deployed	976,665	1,889,939

DESCRIPTION OF BUSINESS

GuestLogix Inc. ('GuestLogix' or the 'Company') is in the business of providing proprietary, on-board, retail software platform solutions for the passenger travel industry. The GuestLogix on-board retail solution, called Mobile Virtual Store, provides significant benefits for all three major components of the on-board retail industry: pre-departure, on-board and post-arrival processing.

In July 2007, the Company incorporated a wholly-owned subsidiary, GuestLogix CCS Inc. ('CCS'), and transferred certain assets to CCS pursuant to a Section 85 rollover, including certain customer contracts related to the use of the Company's software.

REVERSE TAKEOVER

On August 1, 2007, GuestLogix and its principal shareholders entered into a reverse takeover of Growthgen Equity II Inc. ('Growthgen') wherein all of the issued and outstanding shares of GuestLogix were sold, by way of share exchange, to Growthgen (the 'RTO'). Holders of issued and outstanding common shares of GuestLogix received 3.94 shares of Growthgen for each GuestLogix share held. Growthgen and GuestLogix completed an amalgamation of the two entities with the continuing entity retaining the name of GuestLogix Inc.

At the time of closing, GuestLogix had 7,242,109 shares outstanding, which upon conversion into Growthgen shares resulted in a total of 28,533,910 shares being issued to previously existing GuestLogix shareholders. Immediately following the amalgamation, subscription receipts which were issued in relation to a GuestLogix financing under which gross proceeds of \$9,000,040 were raised in May 2007 were automatically exercised and the holders thereof received an aggregate of 12,857,200 common shares. In addition, the outstanding principal amount outstanding of \$728,287 under 12% convertible debentures issued by GuestLogix between August 17, 2006 and October 2, 2006 was converted into 1,235,911 common shares, and an additional 79,194 common shares were issued in satisfaction of fees owed by GuestLogix to a service provider, for a total of 42,706,215 common shares issued in the RTO.

Upon completion of the RTO, there were 44,372,882 common shares outstanding of Growthgen, which was renamed GuestLogix Inc.

Growthgen was a non-operating public enterprise and did not meet the definition of a business under the CICA Handbook EIC-124; therefore, the reverse takeover transaction did not constitute a business combination under the provisions of EIC-10. Accordingly, the transaction has been accounted for as a capital transaction rather than a business combination. The net assets acquired at fair value August 1, 2007 are as follows:

Assets acquired:	
Cash	\$100,046
Less: Liabilities assumed	-
(note 10 (b)(vi))	<u>\$100,046</u>

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ('GAAP') and include the accounts of the Company and its wholly-owned subsidiary, CCS. All significant intercompany transactions have been eliminated.

a) Revenue Recognition

The Company's largest source of revenue derives from arrangements with multiple deliverables. When a customer order contains multiple items such as hardware, software, hosting and services, which are delivered at varying times, the Company determines whether the delivered items can be considered separate units of accounting in accordance with Emerging Issues Committee Abstract 142, *Revenue Arrangements with Multiple Deliverables* ('EIC 142'). EIC 142 states that delivered items should be considered separate units of accounting when the delivered items have value to the customer on a stand-alone basis; there is objective and reliable evidence of the fair value of undelivered items; the arrangement includes a general right of return relative to the delivered items; and, delivery of undelivered items is probable and substantially in the vendor's control.

1. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

a) *Revenue Recognition (continued)*

If the vendor is able to establish fair value for all elements of the arrangement, revenue is allocated and recognized on each element separately in accordance with the appropriate revenue recognition convention for a given unit of accounting. However, if fair value cannot be established or if the delivered items do not have stand-alone value to the customer without the provision of additional services, the vendor recognizes revenue on the items as a whole.

Management has determined that the deliverables in these arrangements do not have value to its customers on a stand-alone basis. In addition, vendor-specific and entity-specific objective evidence, as defined by EIC 142, of the fair values of the items with multiple deliverables is not available as the items generally are not sold separately by the Company, nor are there comparable vendors for these products in the market place. As a consequence, the provisions of EIC 142 do not apply to these arrangements.

To account for revenues and corresponding expenses under these arrangements, the Company employs sales-type lease accounting as follows. The Company sells products to certain customers under terms that approximate sales-type lease arrangements, with GuestLogix as the lessor, for periods ranging from two to five years. GuestLogix accounts for revenue under its sales-type leases in accordance with CICA Handbook Section 3065, *Leases*, and recognizes current and long-term lease receivables on the accompanying balance sheets as net finance receivable. The present value of all minimum lease payments and the associated interest are recognized as revenue on a monthly basis over the terms of the respective arrangements, using the discount rate implicit in each lease. Due to the lack of available objective evidence of fair values, the Company defers recognition of the revenues from these leases and recognizes revenues on a monthly basis when undelivered elements existing at each agreement's outset, such as transaction fees and monthly services, are delivered and payments are due. Amortization of the corresponding capital assets deployed related to the sales-type lease arrangements is charged to amortization expense over the terms of the respective arrangements.

The Company recognizes revenue from the sale of hardware and parts, in accordance with Emerging Issues Committee Abstract 141, *Revenue Recognition* ('EIC 141'), when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collection is reasonably assured.

GuestLogix also earns revenues from professional services and software hosting and support services. Where the arrangement is based on an hourly rate, the fair value of the professional services is recognized as the services are performed, based on the agreed hourly rate. Revenue from a fixed price professional services contract is recognized on a proportional performance basis, which requires GuestLogix to make estimates and is subject to risk and uncertainties inherent in projecting future events. A number of internal and external factors can influence estimates, including the nature of the services being performed, the complexity of the customer's environment and the utilization and efficiency of GuestLogix' professional services team. Recognized revenues are subject to revisions as the contract progresses to completion. Revisions in profit estimates are charged to income in the period in which the facts that give rise to the revision become known. Should there be an insufficient basis to estimate the progress towards the completion, revenue is recognized when the project is complete or when the Company receives final acceptance from the customer. Revenues from software hosting and support services are recognized as in accordance EIC 141, when persuasive evidence of an arrangement exists, services have been rendered, the sales price is fixed or determinable, and collection is reasonably assured.

GuestLogix makes estimates as to the probability of collecting the related accounts receivable balance on a customer-by-customer basis. In cases where collectibility is not deemed probable, revenue is recognized when payments come due or upon the receipt of cash, depending on the circumstances and assuming all other criteria have been met.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Research and Development Expenses

Research costs are expensed as incurred. Costs related to the design and development of software solutions are expensed as incurred unless they meet the criteria under Canadian GAAP for deferral and amortization. No development costs have been deferred to date. Research and development costs are recorded net of investment tax credits, where applicable.

c) Investment Tax Credits

The Company is entitled to federal and provincial investment tax credits, which are earned as a percentage of eligible research and development expenditures incurred in each taxation year. The Company, while it was a Canadian Controlled Private Corporation, recorded the benefit of refundable investment tax credits when the qualifying expenditures had been incurred and there was reasonable assurance as to their collection. Investment tax credits are recorded as a reduction of the related expenditure for items of a current nature and a reduction of the related capital asset for items of a long-term nature.

Upon amalgamation of Growthgen and GuestLogix on August 1, 2007, the Company is no longer entitled to claim refundable investment tax credits against its future eligible research and development expenditures. These amounts are available to reduce taxes payable in future periods.

The claims are subject to review by the Canada Revenue Agency ('CRA').

d) Property and Equipment

Property and equipment are recorded at cost. Amortization is provided on a straight-line basis over their estimated useful lives as follows:

Computer equipment	3 years
Furniture and equipment	5 years

e) Capital Assets Deployed

Assets that are deployed for use by customers are recorded at cost. Amortization is provided on a straight-line basis over the terms of the respective arrangements.

f) Impairment of Long-lived Assets

The useful lives and the carrying values of long-lived assets are periodically reviewed for continued appropriateness. Impairment of long-lived assets to be held and used is reviewed whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. If the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of an asset is less than the carrying value of the corresponding asset, the asset is considered to be impaired. An impairment loss is measured at the excess of the carrying value of the asset over its fair value. As at November 30, 2007, the Company has not recorded an impairment loss.

g) Foreign Currency Translation

Monetary assets and liabilities of the Company that are denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at the balance sheet date. Revenues and expenses are translated at the exchange rates prevailing at the approximate dates of the transactions. Foreign exchange gains and losses are included in the statement of operations.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Income Taxes

The Company provides for income taxes under the asset and liability method. Under the asset and liability method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Future income tax assets, if any, are recognized only to the extent that, in the opinion of management, it is more likely than not that the assets will be realized.

i) Stock-based Compensation

Effective December 1, 2005, the Company adopted the recommendations of the amended CICA Handbook Section 3870, which resulted in the fair value method of accounting being used for all stock-based compensation. The Company grants stock options to directors, officers, employees and consultants of the Company pursuant to the stock option plan described in note 10(c). Compensation expense is recognized for stock options based on the fair value of the options at the grant date. Currently the fair value of the options is recognized over the vesting period of the options as stock based compensation expense as a separate line item on the statement of operations. If the stock options are exercised, the excess of the consideration received is credited to common shares.

The fair value of stock options is estimated at the grant date using the Black-Scholes option-pricing model. This model requires the input of a number of assumptions, including expected dividend yield, expected stock price volatility, expected time until exercise and risk-free interest rates. The Company has assumed no forfeiture rate as adjustments for actual forfeitures are made in the year they occur.

Although the assumptions used reflect management's best estimates, they involve inherent uncertainties based on conditions outside of the Company's control. If other assumptions are used, stock-based compensation could be significantly impacted.

If stock or stock options are repurchased, the excess of the consideration paid over the carrying amount of the stock or stock options cancelled, if any, is recognized as a cost at the date of repurchase.

j) Deferred Revenue

Deferred revenue comprises lease and services revenues. Deferred lease revenue arises when customers receive hardware to utilize the on-board retail software solutions. In these situations, as described in note 1(a), it is deemed that the Company has entered into a sales-type lease and a lease receivable is recorded. Deferred revenue is recognized as income on a monthly basis over the terms of the respective arrangements, using the discount rate implicit in each lease.

Deferred services revenue arises where significant obligations have yet to be satisfied and where payments have been received from the customers in advance of the services performed.

k) Leases

Leases are classified as capital or operating. Those leases, which transfer substantially all the benefits and risks of ownership of property to the Company, are accounted for as capital leases. The capitalized lease obligations reflect the present value of future lease payments, discounted at the appropriate interest rate, and are reduced by rental payments net of imputed interest. Assets under capital leases are amortized based on the useful life of the asset. All other leases are accounted for as operating leases with rental payments expensed as incurred.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Share Issuance Costs

Incremental costs incurred in respect of raising capital are charged against the equity proceeds raised and include legal, accounting, agent and investment bank fees and the cost of agent and investment bank warrants and options.

m) Interest Accretion Expense

Interest accretion expense comprises charges taken to accrete the fair market value of convertible and debt obligations with equity participation features up to face value at their maturity dates.

n) Loss per Share

Basic loss per share is calculated using the weighted average number of common shares outstanding. Diluted loss per share is not presented when the effect on the loss per share of the exercise of the stock options and warrants is anti-dilutive.

o) Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting periods. Financial statement items subject to significant management judgment include revenue recognition, the allowance for doubtful accounts, the realization of investment tax credits, the valuation of capital assets deployed, the valuation of conversion features and options in debt instruments, warrant valuation, future income taxes and the valuation of stock-based compensation. Actual results could differ from those estimates.

p) Recently Adopted Pronouncements

(i) Financial Instruments

On December 1, 2006, the Company adopted CICA Handbook Sections 1530, *Comprehensive Income* ('Section 1530'); Section 3251, *Equity* ('Section 3251'); Section 3855, *Financial Instruments - Recognition and Measurement* ('Section 3855'), Section 3861, *Financial Instruments - Disclosure and Presentation* ('Section 3861') and Section 3865, *Hedges* ('Section 3865').

Section 1530 establishes standards for reporting and presenting comprehensive income, which is the change in equity from transactions and other events during a period from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with GAAP. The adoption of Section 1530 did not have a material effect on the Company's financial position and results of operations for the fiscal years ended November 30, 2007 and 2006.

Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives, and specifies the information that should be disclosed about them. Section 3865 describes when and how hedge accounting can be applied as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenues and expenses from derivative financial instruments in the same periods as those related to the hedged items. The adoption of Sections 3861, 3865 and 3251 did not have a material effect on the Company's financial position and results of operations for the fiscal years ended November 30, 2007 and 2006.

1. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

p) *Recently Adopted Pronouncements (continued)*

(i) Financial Instruments (continued)

Section 3855 defines the terms 'financial instrument,' 'financial asset' and 'financial liability.' Under Section 3855, financial assets must be classified into one of four categories: held-for-trading, held to-maturity, loans and receivables and available-for-sale; financial liabilities must be classified into one of two categories: held-for-trading and other financial liabilities. (Capital lease receivables and obligations do not meet the scope of Section 3855, except for the Section's derecognition and impairment standards.) All derivative instruments, including those that are embedded in, but not closely related to, another contract must be classified as held-for-trading. All financial instruments, including derivatives, are measured at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost, using the effective interest method where applicable. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings. Under the adoption of these new standards, the Company designated restricted cash as held-for-trading, which is measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, notes payable, loans from shareholders, and convertible debentures are classified as other financial liabilities, which are measured at amortized cost.

The adoption of these standards resulted in the decrease of \$507,814 in the fair value of various convertible debt instruments on December 1, 2006 and a corresponding decrease in the deficit of the Company. This decrease in the fair value of the convertible debt will result in increased accretion charges in future periods such that the fair value of the debt will equal its face value at maturity.

(ii) Non-Monetary Transactions

Effective January 1, 2006, the Company adopted CICA Handbook Section 3831, *Non-monetary Transactions*. This standard requires all non-monetary transactions to be measured at fair value unless they meet one of four very specific criteria. Commercial substance replaces culmination of the earnings process as the test for fair value measurement. A transaction has commercial substance if it causes an identifiable and measurable change in the economic circumstances of the entity. Commercial substance is a function of the cash flows expected by the reporting entity. The adoption of this standard did not have a material effect on the Company's financial position and results of operations for the fiscal years ended November 30, 2007 and 2006.

(iii) Cash Flow Statements

In March 2007, the CICA amended Handbook Section 1540, *Cash Flow Statements* ('Section 1540'). Paragraph 1540.55 was amended such that cash distributions on financial instruments classified as equity, and the distributions are determined in accordance with a contractual agreement or relevant constating documents, now require disclosure of the extent to which cash distributions are nondiscretionary. The adoption of this amended standard did not have a material effect on the Company's financial position and results of operations for the fiscal years ended November 30, 2007 and 2006.

GUESTLOGIX INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2007 and 2006

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Recently Adopted Pronouncements (continued)

(iv) General Standards of Financial Statement Presentation

In June 2007, the CICA added paragraphs to Handbook Section 1400, *General Standards of Financial Statement Presentation* ('Section 1400') to include new requirements regarding an entity's ability to continue as a going concern. The additions to Section 1400 apply to interim and annual financial statements relating to fiscal year beginning on or after January 1, 2008. Earlier adoption is encouraged. The adoption of this standard did not have a material effect on the Company's financial position and results of operations for the fiscal years ended November 30, 2007 and 2006.

(v) Inventories

In June 2007, the CICA issued Handbook Section 3031 *Inventories* ('Section 3031'). This section supersedes CICA Handbook Section 3030 *Inventories*, and is based on International Financial Reporting Standard IAS 2, 'Inventories.' The Section prescribes the accounting treatment for inventories and applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. Earlier adoption is encouraged. The Company is currently evaluating the impact of this standard on its financial position, results of operations and cash flows. The Company does not anticipate that the application of Section 3031 will have a material impact on its financial position and results of operations.

2. INVESTMENT TAX CREDITS

At November 30, 2007 the Company has a balance of \$326,667 (2006 - \$160,000) of investment tax credit receivables, which has been recorded as a reduction of research and development expenses related to projects commenced and approved by CRA in the preceding year.

3. RESTRICTED CASH

As at November 30, 2007 the Company had restricted cash of \$1,025,390 (2006 - \$1,253,861) as required to provide collateral security against capital leases. To fulfill this obligation, the Company has purchased short-term U.S. dollar-denominated investments. These investments have been carried at cost at November 30, 2007 and 2006 due to their short-term nature. Upon adoption of Section 3855, the Company has designated these amounts as held-for-trading, which requires that the investments be marked to market and the change in fair value be recorded in the statements of operations.

Of the restricted cash balance, US \$900,000 (CDN \$900,000) is in support of a letter of credit with the Company's banker in favour of the supplier of the assets under capital lease. This facility bears interest at 1% per annum and is secured by certain of the Company's cash deposits with its banker (CDN \$2,800,000 at November 30, 2007).

4. NET FINANCE RECEIVABLES AND CAPITAL ASSETS DEPLOYED

Amounts receivable under sales-type leases, arising through the Company's multiple element arrangements as described in note 1(a), are recorded as net finance receivables. Future un-discounted payments receivable under these multiple element arrangements are as follows:

2008	\$2,032,672
2009	1,072,618
2010	408,875
	<u>\$3,514,165</u>

The average interest rate implicit in these leases ranges from 9.4% to 11.28%.

Costs deferred under these multiple element arrangements, representing equipment sold under the sales-type leases above, are recorded as capital assets deployed.

5. PROPERTY AND EQUIPMENT

	<u>November 30, 2007</u>			<u>November 30, 2006</u>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Computer equipment	\$ 54,456	\$ 54,456	\$ -	\$ 54,456	\$ 54,456	\$ -
Furniture and fixtures	<u>65,569</u>	<u>9,352</u>	<u>56,217</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total property and equipment	<u>\$120,025</u>	<u>\$ 63,808</u>	<u>\$ 56,217</u>	<u>\$ 54,456</u>	<u>\$ 54,456</u>	<u>\$ -</u>

6. LOANS FROM SHAREHOLDERS

a) Convertible Loans from Shareholders

As at November 30, 2007, convertible shareholder loans outstanding, net of allocations for the conversion features and warrants issued with these loans, amounted to \$366,872 (2006 - \$460,490). The face value of convertible shareholder loans aggregate to \$576,693, are unsecured and bear interest at 14% per annum, payable quarterly in arrears. The maturity date of these loans was extended from June 30, 2007 to June 30, 2008 during the 2007 fiscal year.

The loans are convertible until their maturity dates such that, upon conversion, the holder would receive one common share for each \$0.1988 of principal amount converted. In the event the face amount of the debentures is converted, the Company would issue 2,900,870 common shares. In addition, the holders of these loans received one warrant for each dollar invested with the holder having the right to purchase one common share for each four warrants held at a price of \$0.20 per common share. In total, 6,816,547 warrants were issued for the \$576,693 outstanding as at November 30, 2007, which are exercisable into 1,704,137 common shares, and have an expiry date of April 30, 2008.

Convertible shareholder loans contain a liability and an equity element, represented by the conversion option, as well as the value ascribed to a warranty element. As the liability element of these instruments fluctuates in response to changes in the market value of GuestLogix' shares, under Canadian GAAP these two elements are split and classified separately as debt and equity. In addition, as noted above, the debt holders received purchase warrants upon the issuance of the convertible loans. The Company allocated the total proceeds received from the issuance of the convertible loans to these three elements based on their relative fair values. The fair value of the purchase warrants were determined based on an option-pricing model. The fair value of the debt was based on the discounted cash flows using an estimated cost of borrowing of 22% to represent an estimate of the cost to the Company of borrowing secured debt, without a conversion option or purchase warrants. The convertible loans' conversion option was valued using a lattice model.

6. LOANS FROM SHAREHOLDERS

a) Convertible Loans from Shareholders (continued)

At inception of the \$952,293 of loans in 2006, the allocation based on relative fair values resulted in the allocation of \$177,427 to the debt instrument, \$480,943 to the conversion option, and \$293,923 to the purchase warrants. These loans bore original maturities of June 1, 2007 and June 30 2007, but were extended in their entirety during fiscal 2007 until June 30, 2008. The modification of the terms of the convertible loans has been accounted for in accordance with EIC-88, *Debtor's Accounting for Modification or Exchange of Debt Instruments*. As such, the Company revalued the loans and allocated a further \$699,676 to the conversion option, resulting in a corresponding decrease in the fair value of the loans.

Each reporting period, the Company is required to accrete the carrying value of the debt instruments such that at maturity the carrying value of the debt instruments will equal the face value of the outstanding debt, \$576,693.

For the year ended November 30, 2007, the Company recorded accretion expense relating to all of its shareholder convertible loans of \$1,290,612 (2006 - \$216,478).

b) Shareholder Loan

The loan is non-interest bearing, unsecured, without fixed terms of repayment.

7. OBLIGATIONS UNDER CAPITAL LEASES

From time to time the Company purchases hand-held, point-of-sale payment devices which in turn are bundled with software, hosting and services and leased to customers are described in note 1(a). These devices were then sold under sales-type lease arrangements to customers under a multiple element revenue arrangement, as described in note 1(a). During the 2007 fiscal year, hand-held, point-of-sale payment devices were purchased at a cost of \$1,620,977 (2006 - \$3,321,637) of which \$976,665 (2006 - \$1,889,939) was financed by way of increases in capital lease obligations.

The following is a schedule of future minimum lease payments for equipment under capital leases:

	<u>2007</u>
2008	\$1,170,744
2009	584,675
2010	<u>177,093</u>
	1,932,512
Less: Amount representing interest (at 5.36% to 12.46%)	(170,986)
Less: Current portion	<u>(1,038,265)</u>
	<u>\$ 723,261</u>

Interest expense related to this obligation for the year ended November 30, 2007 amounted to \$174,923 (2006 - \$35,387).

8. DEFERRED REVENUE

The deferred revenue reported as at November 30, 2007 was \$3,198,600 (2006 - \$3,024,800).

Deferred revenue reported as at November 30, 2007 pertains primarily to lease obligations from three customers (2006 – one customer). Deferred revenue is recognized on a monthly basis over the terms of the corresponding lease agreements, which range from two to five years (2006 – three years) as described in note 1(a).

9. NOTES PAYABLE

On August 12, 2005, the Company purchased and cancelled the outstanding common shares of GuestLogix as part of a management buyout agreement in exchange for a non-interest bearing note payable comprising a fixed obligation of \$414,785 (U.S. \$350,000). The balance outstanding under this obligation as at November 30, 2007 was \$Nil (2006 - \$340,290 (U.S. \$300,000)).

In addition, contingent consideration of up to U.S. \$200,000 is payable subject to the Company achieving certain conditions at August 12, 2008, or at anytime prior to that date if triggered by a liquidation event as defined in the agreement. Management has determined that, as at August 31, 2007, it was feasible that the conditions may be met and as a result, contingent consideration of \$100,000 (U.S. \$100,000) has been recognized as a liability in the accompanying consolidated financial statements (2006 - \$Nil).

10. SHARE CAPITAL

All share and per share information in these notes and the accompanying consolidated financial statements has been adjusted to give effect to an April 2007, 3:1 stock split.

(a) Authorized

An unlimited number of voting common shares.

(b) Issued

	Reference	Number of Common Shares	Total
Balance, November 30, 2005		24,553,686	\$ 300,001
Issuance of shares for cash consideration	(i)	3,092,785	556,752
Issuance of shares for services	(ii)	<u>22,281</u>	<u>4,000</u>
Balance, November 30, 2006		<u>27,668,752</u>	<u>\$ 860,753</u>

GUESTLOGIX INC.
Notes to Consolidated Financial Statements
Years ended November 30, 2007 and 2006

10. SHARE CAPITAL (continued)

b) Issued (continued)

Balance, November 30, 2006		27,668,752	\$ 860,753
Issuance of shares for compensation	(iii)	79,194	55,346
Issuance of shares for cash consideration	(iv)	12,857,200	9,000,040
Issuance of shares upon settlement of debt obligation	(v)	1,235,911	728,287
Issuance of shares upon going public transaction	(vi)	1,666,667	100,046
Issuance of shares from 'shares to be issued'	(vii)	705,411	470,746
Issuance of shares for cash consideration	(viii)	159,747	110,000
Issuance of shares on exercise of warrants	(ix)	447,750	136,274
Issuance of shares on exercise of options	(x)	145,013	47,906
Issuance of shares upon debenture conversions	(xi)	<u>2,892,354</u>	<u>575,000</u>
Balance, November 30, 2007		<u>47,857,999</u>	<u>\$12,084,398</u>

- (i) On December 22, 2005, the Company issued 3,092,785 common shares at a price of \$0.23 per share for consideration of \$556,752, cash, through a private placement.
- (ii) On December 22, 2005, the Company issued 22,281 common shares at a price of \$0.23 per share for total consideration of \$4,000 in lieu of services provided to the Company.
- (iii) In August 2007, the Company issued 79,194 common shares having a value of \$55,346 to a service provider as compensation for services rendered related to a financing.
- (iv) In August 2007, the Company issued 12,857,200 common shares in conjunction with the completion of an equity financing for gross cash proceeds of \$9,000,040, which when netted out against share issuance costs totaling \$2,411,097, resulted in net proceeds allocated to share capital of \$6,588,943.
- (v) In August 2007, the Company issued 1,235,911 common shares as consideration for the conversion of certain loans and accrued interest, which, when netted out against the fair value of warrants issued in conjunction with the conversion of the loans resulted in gross proceeds allocable to share capital of \$728,287 (\$696,304 net of \$31,983 of issuance costs).
- (vi) In August 2007, the Company issued 1,666,667 shares in GuestLogix Inc. to the former holders of Growthgen Equity II Inc. ('Growthgen') upon amalgamation of the two companies for \$100,046, being the net assets acquired at fair value of Growthgen on the date of the amalgamation.
- (vii) In June 2007, the Company issued 705,411 shares based on net proceeds of \$470,746, cash, previously received, the value of which was recorded under 'shares to be issued' as at the Company's fiscal year end of November 30, 2006.
- (viii) In June 2007, the Company issued 159,747 shares based on net proceeds of \$110,000, cash, received in December 2006.
- (ix) In October 2007, the Company issued 447,750 common shares upon the exercise of warrants for total consideration of \$136,724, cash. The value previously attributed to the warrants, \$46,724, was reallocated to share capital at that time.
- (x) In November 2007, the Company issued 145,013 common shares upon the exercise of options for total consideration of \$47,906, cash.
- (xi) In October and November 2007, the Company issued 2,892,354 common shares as consideration for the conversion of certain convertible notes payable totaling \$575,000.

10. **SHARE CAPITAL** (continued)

c) Stock Options

The Company established a stock option plan ('the Plan') in 2005 to encourage ownership of the Company's common shares by its key officers, directors, employees and consultants. The Plan, as restated and approved by shareholders subsequent to the amalgamation with Growthgen, provides for an amount of up to 15% of the outstanding common shares of the Company to be reserved for issuance. The number of shares reserved for issuance under the Plan at November 30, 2007 is 6,655,932 common shares with provision that the Board of Directors has the right, from time to time, to increase such number subject to the approval of the shareholders of the Company. Options under the Plan vest over various periods from the date of the granting of the option. All options granted under the Plan that are not exercised within periods of up to ten years of the grant dates will expire, subject to earlier termination if the optionee ceases to be an officer, director, employee or consultant of the Company.

The following is a summary of the stock options granted as at November 30, 2007 and 2006 and changes during the years ended November 30, 2007 and 2006.

	<u>2007</u>		<u>2006</u>	
	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
Options outstanding, beginning of year	736,622	\$0.07	736,622	\$0.07
Transferred from Growthgen	266,667	0.30		
Granted	1,864,983	0.64	-	-
Exercised	(145,013)	0.27	-	-
Cancelled	(133,895)	0.69	-	-
Options outstanding, end of year	<u>2,589,364</u>	<u>\$0.46</u>	<u>736,622</u>	<u>\$0.07</u>
Options exercisable, end of year	<u>1,209,109</u>	<u>\$0.18</u>	<u>245,182</u>	<u>\$0.07</u>

The Company recognized \$222,245 (2006 – \$3,241) of stock-based compensation expense for stock options issued to service providers, directors, officers and employees during the year ended November 30, 2007.

The fair values of options granted were estimated on the dates of the grants using the Black-Scholes option-pricing model, resulting in the fair value per option granted in 2007 of \$Nil to \$1.15

	<u>2007</u>
Risk-free rate of return	3.91 – 4.64%
Expected volatility	0 – 94%
Dividend yield	0%
Weighted average expected life of the options	5 years

10. SHARE CAPITAL (continued)

(d) Contributed Surplus

The following is a continuity schedule of contributed surplus for the years ended November 30, 2007 and 2006:

Balance, November 30, 2005	\$585,661
Stock-based compensation expense recognized during the year	<u>3,241</u>
Balance, November 30, 2006	588,902
Stock-based compensation expense recognized during the year	222,445
Reallocation upon exercise of options	<u>(8,975)</u>
Balance, November 30, 2007	<u>\$802,372</u>

(e) Warrants

The following is a summary of outstanding warrants as at November 30, 2007 and 2006 and changes during the years ended November 30, 2007 and 2006:

	November 30, 2007		November 30, 2006	
	<u>Number of Warrants</u>	<u>Amount</u>	<u>Number of Warrants</u>	<u>Amount</u>
Exercise price of \$0.199 (plus four warrants) Expiring April 30, 2008 (i)	11,822,047	\$ 308,872	13,613,047	\$ 355,596
Exercise price of U.S.\$0.32 expiring June 30, 2009 (ii)	980,468	237,806	980,468	237,806
Exercise price of U.S.\$0.726 expiring August 16, 2011 to October 1, 2011 (iii)	727,047	64,849	540,480	64,849
Exercise price of U.S.\$0.907 expiring August 16, 2011 to October 1, 2011 (iii)	540,480	80,408	540,480	80,408
Exercise price of U.S.\$0.57 expiring on January 31, 2009 (iv)	119,075	8,119	-	-
Exercise price of \$0.20 expiring on November 28, 2008 (v)	48,698	25,618	-	-
Exercise price of \$0.84 expiring on July 31, 2009 (vi)	501,202	138,804	-	-
Exercise price of \$0.70 expiring on July 31, 2009 (vii)	<u>900,004</u>	<u>282,379</u>	<u>-</u>	<u>-</u>
	<u>15,639,021</u>	<u>\$1,146,855</u>	<u>15,674,475</u>	<u>\$ 738,659</u>

- (i) Warrants issued and outstanding in conjunction with shareholder convertible loans (note 6(a)) and convertible debentures (note 12) allow for the purchase of 2,955,512 common shares (2006 – 3,403,262 common shares).
- (ii) Warrants issued and outstanding in conjunction with \$445,990 (U.S. \$400,000) in notes payable on June 20, 2006 totalled 980,468.
- (iii) Warrants issued and outstanding in conjunction with an additional U.S. \$653,626 in loans in 2006 totalled 1,267,527. The warrants have exercise prices of U.S. \$0.726 and U.S. \$0.907 per share.
- (iv) Warrants issued and outstanding in conjunction with services provided to the Company totalled 119,075 and have an exercise price of U.S. \$0.57 per share.

GUESTLOGIX INC.
Notes to Consolidated Financial Statements
Year ended November 30, 2007 and 2006

10. SHARE CAPITAL (continued)

(e) Warrants (continued)

- (v) Warrants issued and outstanding in conjunction with services provided to the Company totalled 48,698 and have an exercise prices of \$0.20 per share.
- (vi) Warrants issued and outstanding in conjunction with capital raising services provided to the Company totalled 501,202 and have an exercise price of \$0.84 per share.
- (vii) Warrants issued and outstanding in conjunction with capital raising services provided to the Company totalled 900,004 and have an exercise price of \$0.70 per share.

The fair value of warrants granted in 2007 was estimated on the date of the grant using the Black-Scholes option-pricing model, resulting in the fair value of these options being \$454,920, with the following assumptions being used: (a) risk-free rate of return of 4.08 - 4.64%; (b) expected volatility of 79-80%; (c) and weighted average expected life of the warrant of 1.46 - 2 years.

(f) Shares to be Issued

The following is a summary of the shares to be issued as at November 30, 2007 and 2006 and changes during the years ended November 30, 2007 and 2006.

	<u>Number of Common Shares</u>	<u>Amount</u>
Balance, November 30, 2006	705,411	\$470,746
Issuance of common shares	<u>(705,411)</u>	<u>(470,746)</u>
Balance, November 30, 2007	<u>-</u>	<u>\$ -</u>

11. LOSS PER SHARE

	<u>Years Ended November 30,</u>	
	<u>2007</u>	<u>2006</u>
Numerator		
Loss for the period	<u>(\$ 3,720,483)</u>	<u>(\$ 2,289,780)</u>
Denominator		
Weighted average number of shares (basic and diluted) number of shares (basic and diluted)	<u>34,069,237</u>	<u>27,480,992</u>
Loss per share (basic and diluted)	<u>(\$0.11)</u>	<u>(\$0.08)</u>

GUESTLOGIX INC.**Notes to Consolidated Financial Statements**

Years ended November 30, 2007 and 2006

12. CONVERTIBLE DEBENTURES

As at November 30, 2007, convertible debentures outstanding, net of allocations for the conversion features and warrants issued with these loans, were \$Nil (2006 - \$648,893). Convertible debentures with a face value of \$200,000 and a maturity date of June 30 2007 were extended in their entirety a further year to June 30, 2008. The modification of the terms of the convertible loans has been accounted for in accordance with EIC-88, *Debtor's Accounting for Modification or Exchange of Debt Instruments*. As such, the Company revalued the loans and allocated a further \$147,038 to the conversion option, resulting in a corresponding decrease in the fair value of the loans.

During fiscal 2007, convertible debentures with a face value of \$929,067, plus accrued interest, that had been issued between May 13, 2006 and October 1, 2006, were converted to 2,241,947 common shares. Interest accretion expense relating to these convertible debentures in 2007 was \$639,435 (2006 - \$192,417).

13. INCOME TAXES

Under the Income Tax Act, certain expenditures are classified as Scientific Research and Experimental Development ('SRED') expenditures and, for tax purposes, are grouped into a pool, which is 100% deductible in the year incurred. This SRED expenditure pool can also be carried forward indefinitely and deducted in full in any subsequent year. The balance of the SRED expenditure pool at November 30, 2007 is \$1,598,753 (2006 - \$1,275,517).

A reconciliation between the Company's statutory and effective tax rates is as follows:

	<u>2007</u>	<u>2006</u>
Tax recovery at statutory rate	36.1%	36.1%
Permanent differences and other	12.3%	(7.1%)
Increase in valuation allowance	(48.4%)	(25.9%)
Change in substantively enacted rates	-	(3.1%)

The tax effect of significant temporary differences is as follows:

	<u>2007</u>	<u>2006</u>
Future income tax assets		
Difference between net book value and unclaimed capital cost of equipment and leases	(\$ 99,832)	\$ 143,128
Financing fees	(160,491)	19,254
Tax loss carryforwards, unutilized scientific research and experimental development expenditures and investment tax credits	<u>1,327,606</u>	<u>808,976</u>
	1,067,283	971,358
Less: Valuation allowance	<u>1,067,283</u>	<u>971,358</u>
Net future tax assets	<u>\$ -</u>	<u>\$ -</u>

13. INCOME TAXES (Continued)

The Company believes that sufficient uncertainty exists regarding the realization of its future income tax assets that a valuation allowance is required. The Company continues to evaluate its taxable position quarterly and considers factors such as estimated taxable income, the history of losses for tax purposes and the growth of the Company, among others. As at November 30, 2007, the Company has non-capital losses available for carry-forward to reduce future years' income for tax purposes, which, if unused, will expire as follows:

2015	\$ 721,971
2027	<u>1,340,892</u>
	<u>\$2,062,863</u>

14. CHANGES IN NON-CASH OPERATING WORKING CAPITAL

	Years Ended November 30,	
	<u>2007</u>	<u>2006</u>
Accounts receivable	(\$ 472,560)	(\$ 160,083)
Prepaid expenses and other assets	(105,735)	(2,271)
Investment tax credits receivable	(166,667)	170,000
Accounts payable and accrued liabilities	1,435,814	403,248
Deferred revenue	<u>(1,358,636)</u>	<u>(39,570)</u>
	<u>(\$ 667,784)</u>	<u>\$ 371,324</u>

15. FINANCIAL INSTRUMENTS

The carrying values of cash, accounts receivable, restricted cash, accounts payable and accrued liabilities and loans from shareholder approximate their fair values due to the relatively short periods to maturity of these financial instruments.

The fair value of the Company's other financial instruments approximates their carrying value at November 30, 2006 and November 30, 2007. The carrying values of net finance receivables and capital lease obligations approximate fair market value as the interest rates used to determine the fair value of these instruments are consistent with rates estimated to be currently available for instruments of similar terms and maturities. Factors affecting the determination of the fair value of loans from shareholders and of notes payable are discussed in notes 6(a) and 9, respectively.

Fair value estimates are made at a specific point in time based on relevant market information. These estimates are subjective in nature, involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect estimates.

The Company is subject to interest rate and credit risks arising from its financial instruments, principally its accounts receivable and net finance receivable, as well as currency risk in the normal course of the Company's operations. Restricted cash is invested in certain instruments of varying maturities. Consequently, GuestLogix is exposed to interest rate risk as a result of holding investments of varying maturities. The fair value of investments, as well as the investment income derived from the investment portfolio, will fluctuate with changes in prevailing interest rates. GuestLogix does not use interest rate derivative financial instruments in its investment portfolio.

The Company has major customers that are located in the United States and Europe; payments and revenue under arrangements with these customers are in United States dollars Euros and Pounds Sterling. The Company makes additional sales and purchase transactions in foreign currencies, and therefore is subject to gains or losses due to fluctuations in foreign currencies. The Company does not use derivative financial instruments to minimize its exposure to foreign currency risks. Foreign exchange losses incurred during the year amounted to \$104,649 (2006 - foreign exchange gain of \$27,759).

16. GUARANTEES

In the normal course of business, the Company enters into agreements that meet the definition of a guarantee. The Company's primary guarantees are as follows:

- a) Indemnity has been provided to all directors and officers of the Company for various items including, but not limited to, all costs to settle suits or actions due to association with the Company, subject to certain restrictions. The Company has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of the Company. The maximum amount of any potential future payment cannot be reasonably estimated.
- b) In the normal course of business, the Company has entered into agreements that include indemnities in favor of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Company to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated. The nature of these indemnification agreements prevents the Company from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability, which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Company has not made any payments under such or similar indemnification agreements and therefore no amount has been accrued in the balance sheet with respect to these agreements.

17. RELATED PARTY TRANSACTIONS AND BALANCES OWING

Transactions between the Company and its shareholders and other related parties are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Certain of the executives are compensated through management service agreements. These agreements entitle these individuals to a fixed monthly payment and reimbursement of reasonable out-of-pocket expenses. During the year the Company incurred costs of \$347,140 (2006 - \$246,156) relating to these agreements, which are included in general and administrative expenses. As at November 30, 2007, a total of \$37,562 (2006 - \$164,449) is unpaid and is included in accounts payable and accrued liabilities.

Interest paid or payable to shareholders during the year on shareholder loans totaled \$56,028 (2006 \$83,227).

18. COMMITMENTS

Future minimum lease payments under the premises and equipment operating leases, exclusive of taxes and other operating costs, are as follows:

2008	\$195,851
2009	206,615
2010	191,539
2011	171,287
2012	153,784
Thereafter	<u>69,902</u>
	<u>\$988,978</u>

19. SEGMENTED INFORMATION AND CUSTOMER CONCENTRATION

(a) Geographic Information

The Company manages its operations in one business segment: providing proprietary transaction-based, on-board, retail software solutions for the passenger travel industry. All significant property and equipment are located in Canada. During the year \$4,271,939 (2006 - \$914,634) of the Company's revenue were derived from North America, while the remainder, \$1,158,214 and (2006 - \$147,447), were derived primarily from Europe.

(b) Major Customers

During 2007, five customers accounted for 87% of the total revenues for the year. (2006 – five, 100%)

20. CONTINGENCIES

(a) See note 9.

(b) In December 2006, a complaint was filed against the Company in the United States. The plaintiff is seeking compensatory damages of U.S. \$150,000 together with punitive damages in an unspecified amount. The plaintiff has also undertaken an action against American Airlines. GuestLogix may be required to indemnify American Airlines. The Company believes this complaint is without merit and will defend itself in the normal course. While the outcome of the above claim is not determinable, no amount relating to this matter has been accrued in the accompanying consolidated financial statements.

21. SUBSEQUENT EVENTS

On December 17 2007, the Company entered into a product development agreement with its primary hand-held device supplier to develop a next generation mobile point-of-sale device. The Company advanced its supplier \$300,000 (USD \$300,000) to assist in this development. The supplier is required to meet certain key milestones including commercial production of the device by May 2008. The advance is repayable to the Company upon the occurrence of certain events including the supplier missing milestones and the achievement of a certain volume of commercial sales.