



**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
FOR THE YEARS ENDED NOVEMBER 30, 2009 and 2008**

**Dated: February 12, 2010**

## **SCOPE OF ANALYSIS**

The following is a discussion and analysis of the consolidated financial position, results of operations and cash flows of GuestLogix Inc. for the year ended November 30, 2009 and should be read in conjunction with the consolidated financial statements and accompanying notes for such period. The effective date of management's discussion and analysis ('MD&A') is February 12, 2010. The Company reports its financial results in Canadian dollars and under Canadian generally accepted accounting principles. References herein to 'GuestLogix', 'the Company', 'we' and 'our' mean GuestLogix Inc.

## **ADDITIONAL INFORMATION**

Additional information related to the Company including our most recently completed Annual Information Form ('AIF') is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **FORWARD LOOKING STATEMENTS**

The information set forth in this MD&A contains statements concerning GuestLogix' future results, future performance, intentions, objectives, plans and expectations that are, or may be deemed to be, forward-looking statements. These statements concerning possible or assumed future results of operations of GuestLogix are preceded by, followed by or include the words 'believes,' 'expects,' 'anticipates,' 'estimates,' 'intends,' 'plans,' 'forecasts,' or similar expressions. Forward-looking statements are not guarantees of future performance. These forward-looking statements are based on current expectations that involve numerous risks and uncertainties, including, but not limited to, those identified in the Risks Factors section of the filing statement the Company filed with regulatory authorities on September 28, 2009. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond GuestLogix' control. Although GuestLogix believes that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate. These factors should be considered carefully, and readers should not place undue reliance on forward-looking statements. GuestLogix has no intention and undertakes no obligation to update or revise any forward-looking statements, whether written or oral that may be made by or on the Company's behalf.

## OVERVIEW

### Annual Highlights and Summary

- Revenue was \$18,554,760 for the year ended November 30, 2009, compared to \$8,473,865 for the year ended November 30, 2008.
- EBITDA<sup>1</sup> was \$4,834,851 for the year ended November 30, 2009, compared to \$(1,314,769) for the year ended November 30, 2008.
- EBITDA before stock based compensation expense was \$5,079,545 for the year ended November 30, 2009, compared to \$(850,883) for the year ended November 30, 2008.
- Net profit was \$227,156 for the year ended November 30, 2009, compared to a net loss of \$(4,270,635) for the year ended November 30, 2008.
- GuestLogix' cash and cash equivalents totaled \$9,435,680 as at November 30, 2009, compared to \$2,650,099 as at November 30, 2008.
- GuestLogix' cash and cash equivalents including restricted cash totaled \$12,129,181 as at November 30, 2009, compared to \$5,545,199 as at November 30, 2008.

- (1) Earnings before interest, taxes, depreciation, amortization and foreign exchange ('EBITDA') is a financial metric used by many investors to evaluate companies in this industry on the basis of operating results and the ability to incur and service debt. EBITDA does not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. The disclosure of EBITDA is not intended to replace, but only augment, the discussion of financial results from operations or cash flows.

### GuestLogix' Business

GuestLogix is the leading provider of onboard retail technology, helping carriers build, manage and control onboard stores tailored to their needs and their passengers. The Company's Onboard Retail Solution™ supports significant new retail opportunities for carriers to drive net profitable revenues while helping their passengers to get more out of their trip. Through its branded OnTouch™ onboard store environment GuestLogix delivers a branded onboard consumer marketplace that enable carriers to elevate their relationship with customers and create sustained ancillary revenue by offering travel-relevant destination based products and services.

The Onboard Retail Solution™ is the de facto standard in the airline sector. The world's leading airline brands such as American, Delta, Northwest, United, US Airways, Southwest, Continental, British Airways, KLM, Ryanair, Brussels Airlines, Germanwings and WestJet rely on GuestLogix to serve their customers. GuestLogix held more than 90% of the North American market and greater than a 35% market share of the global airline industry passenger traffic at November 30, 2009. Across the global passenger industry GuestLogix has in place agreements to serve over 931 million passenger trips annually.

## Growth Strategy and Future Outlook

GuestLogix' strategy is to penetrate the global passenger travel industry as quickly as possible with the objective of becoming the premier global provider of onboard retail merchandising solutions. By providing an innovative no-capital outlay up front software and hardware solution to prospective clients we have been able to capture significant global market share during the past three years.

This growth strategy has been supported to date by the ability of the Company to continue to obtain lease and loan financing facilities during very difficult credit markets, allowing for the purchase of the point-of-sale hand-held devices that support the software platform solution. We continued our efforts to expand our global platform footprint in 2009 with a focus on the Americas, Europe and Asia Pacific, and have firmly positioned ourselves as the solution for onboard retail merchandising globally. We continue to expand our underlying infrastructure, including merchandising solutions, technology, business processes, skilled labor and organizational structure, to support the continued growth of our global footprint. However, we expect that these additional costs will have a lessening impact on the Company's cost base than the business expansion in fiscal 2007 and 2008.

In June 2009, we launched our new global merchandising service, OnTouch™, which enables in-flight merchandising powered by Onboard Retail Solution™. The in-flight merchandising service allows our platform clients the opportunity to sell destination based travel relevant products onboard and realize numerous ancillary revenue opportunities. The OnTouch™ platform consists of six programs which are Box Office, Ground Connections, Shopping & More, Minutes on the Go, Concierge Everywhere and Ads by OnTouch™. We have signed agreements with vendors in each of the six program categories, and have deployed two of the programs with one airline.

GuestLogix' continued growth opportunity is due largely to the following five converging factors:

- i) Economic factors continue to depress overall passenger travel demand and the passenger travel industry is being forced to quickly seek alternative revenue opportunities. Whereas these companies may in the past have been reluctant to consider ancillary revenue opportunities, the drop in both business and leisure travel and the consequent negative impact on revenue and profitability drives them to look at all revenue generating alternatives more closely. The economic situation while a negative for the passenger travel industry is an overall positive for the GuestLogix business model as the need for additional revenues within the industry is acute.
- ii) The passenger travel industry is facing a number of specific challenges that are forcing them to seek alternative revenue sources to enhance their profitability. Passenger tickets have become commoditized thereby lowering seat prices and the ability of the carriers to raise prices. Fuel costs are unpredictable having gyrated wildly in the past 12 months,

placing tremendous pressure on airlines in particular. Many airlines were trapped on the wrong side of aviation fuel hedges during the time of both rising and falling fuel prices. Low-cost carriers have driven a significant and new emphasis on 'ancillary revenues' which has led to a strong drive towards implementing profitable onboard retail programs across the industry. Ancillary revenues can provide margins in excess of 40%, while ticket prices provide profit margins of between 2% and 4%. In addition, competition from airline low-cost carriers will lead the rail and high-speed ferry sectors to also adopt the onboard retail model in order to increase revenues and profitability.

- iii) Mobile, hand-held device technology has matured to the point where industrial, ruggedized hand-held devices are now at a price point that can economically enable payment transactions to be captured in an 'onboard environment' and sent via wireless transmission for post-arrival clearing and settlement. GuestLogix is uniquely positioned to also be the solution platform of choice when the next technology solution commonly referred to as 'back of the seat' screens are more widely adopted within the passenger travel industry.
- iv) GuestLogix has continued to make investments in its core software and hardware and today offers a complete and fully ready solution for onboard retail. In addition, GuestLogix has a transaction-based or 'utility model' go-to-market strategy, which enables a recurring revenue stream via a transaction-based fee for every onboard sales transaction without the need for the client to make a capital intensive investment in hardware and software up-front.
- v) GuestLogix continues to establish distribution channels and key partnerships with some of the most significant players within the passenger travel industry. Management believes these channels and partnerships will enable GuestLogix to extend its reach to all geographies and to each of the three key sectors for onboard retail: airlines, rail and high-speed ferries. In order to build channel partner relationships and reach end customers, GuestLogix attends tradeshow, advertises in trade publications and speaks at industry events. GuestLogix may also pursue selective acquisitions to further its growth.

There are no assurances that GuestLogix will continue to be profitable, as the Company has not earned substantial operating profits to date. Our plans to continue to grow aggressively, and building out our infrastructure may cause operating losses in the future. In particular, we have aggressive growth targets in the Asia Pacific region and with our onboard retail merchandising solution and related airline programs.

## Global Market Conditions

Global economic conditions continued to show signs of improvement through the last quarter of 2009 and it is expected that this trend will continue through 2010. The United States for example has just reported strong growth in the last quarter of 2009. The consensus seems to be that the world faces several more quarters at least of uncertainty and this uncertainty will be a drag upon the speed and strength of the global recovery. Travel demand continues to be weak, especially business travel, but overall demand has begun to strengthen. The International Air Traffic Association ('IATA') has indicated that they do not expect passenger load factors to improve significantly from current levels of around 78% until the latter part of 2010. Although the industry is starting to see demand growth, IATA believes revenue improvements will be at a much slower pace, and profitability will be even slower to recover as airlines in total are still forecast to lose US\$5.6 billion in 2010. Oil prices continue to fluctuate causing continuing uncertainty and adding to the airlines significant cost pressures. In addition a number of legacy carriers are facing unsettled labor conditions, which could impact their financial performance in the next few quarters. In the North American market, where GuestLogix has over 90% of the carriers under agreement, the airlines have been quicker to adjust their overall capacity by grounding aircraft and are therefore expected to post smaller losses in 2009 and 2010, as a group, according to IATA. As well the North American airlines have moved much more quickly to expand their onboard retail offerings and with the introduction of a "cashless cabin" have seen their ancillary revenues and volume of on-board transactions grow through the later part of 2009.

Our focus for platform growth in 2010 will be in markets located outside North America and Europe. These markets in Asia Pacific have been impacted by lower passenger travel demands and are forecasted by IATA to lose money as a group in 2009 into 2010. The economic performance of China will have a significant impact on our customer targets in 2010. GuestLogix expects to remain cash flow positive throughout 2010. Consequently the regions financial uncertainty may not be an impediment to our continued expansion, as we expect to be able to fund device purchases internally if need be. However, some of the targeted larger airlines in the region may be time consuming to finance, thereby increasing our need to bridge finance a number of these deployments.

The magnitude of the global government monetary and fiscal intervention is expected to continue to cause turbulence in foreign exchange market. The debate over when to remove or reduce government intervention will drive this turbulence through much of 2010. As most of our business is conducted outside Canada, we are being impacted by the significant fluctuations in foreign currencies, especially so with the continued weakness of the Euro, Sterling and the US dollar to the Canadian dollar. We have chosen not to hedge our foreign exchange exposure due to the unpredictable nature of our cash flows combined with the continuing large premiums in the forward exchange markets. We continue to enjoy a significant natural hedge in US dollars with the majority of our revenues currently generated from North American clients. The Company's supplier of hand-held devices and peripheral equipment, our largest expenditure, prices its products in US dollars.

While global economic conditions are expected to remain challenging through the coming year, we anticipate that our existing and target customer base will continue to be driven to improve their revenue opportunities through ancillary revenue growth.

## RESULTS OF OPERATIONS

The table below sets out the statement of operations for the years ended November 30, 2009 and 2008:

	<b>2009</b>	<b>2008</b>
<b>Consolidated Statement of Operations Data:</b>		
<b>Revenue</b>	\$18,554,760	\$8,473,865
<b>Expenses:</b>		
Cost of equipment sales	1,926,924	1,359,517
Research and development	389,747	557,098
Customer delivery and support	2,271,589	1,321,917
Infrastructure support	3,371,072	1,343,113
Sales and marketing	1,397,693	1,358,986
General and administrative	4,118,190	3,384,117
Stock-based compensation	244,694	463,886
Amortization of capital assets deployed	3,883,095	2,425,308
Amortization of equipment	86,346	40,426
	<b>17,689,350</b>	<b>12,254,368</b>
<b>Income (loss) from operations</b>	<b>865,410</b>	<b>(3,780,503)</b>
<b>Other income (expense):</b>		
Foreign exchange gain (loss)	54,611	25,209
Interest earned	22,654	157,434
Interest expense	(517,849)	(462,954)
Term loan interest and fees	(197,670)	-
Interest accretion expense	-	(209,821)
	<b>(638,254)</b>	<b>(490,132)</b>
<b>Net income (loss) for the year and comprehensive income (loss)</b>	<b>\$227,156</b>	<b>\$(4,270,635)</b>
<b>Supplementary Financial Data</b>		
Income (loss) per share - basic and diluted	\$0.00	\$(0.08)
Weighted average number of shares outstanding – basic	56,549,408	51,149,674
<b>Consolidated Balance Sheets Data:</b>		
Cash and cash equivalents, excluding restricted cash and cash equivalents	\$ 9,435,680	\$ 2,650,099
Working capital	\$ 5,355,694	\$ (50,324)
Total assets	\$ 39,962,317	\$21,019,353
Long-term liabilities, excluding current portion	\$ 11,966,612	\$ 6,619,547
Total shareholders' equity	\$ 13,841,672	\$ 5,715,265

## COMPARISON OF THE YEARS ENDED NOVEMBER 30, 2009 AND 2008

### Revenue

The Company continued to grow strongly in 2009 despite the uncertain economic climate. The Company grew revenue by 119% from \$8,473,865 in 2008 to 18,554,760 in 2009. The largest growth continued in North America where the Company added United Airlines, Continental Airlines and Northwest Airlines to its airline client base. In Europe, the Company added several airline clients by mid-year including British Airways and KLM Royal Dutch Airlines.

### Operating Expenses

Cost of equipment sales were \$1,926,924 compared to \$1,359,517 for the fiscal year ended 2008, an increase of 42%. These sales included hand-held devices, peripheral equipment and accessories used by clients to support the Onboard merchandising platform and are higher as a result of a greater deployed platform base of clients.

Research and development expense were \$389,747 compared to \$557,098 for the fiscal year ended 2008. Personnel costs accounted for approximately 72% of the total expense in 2009, compared to approximately 95% in 2008. It is expected that this expense will increase during 2010 to the 2008 levels as the Company invests further in the development of its OnTouch™ onboard store technology platform.

Customer delivery expenses are related to placing the software solution into production at the client site including development and software change orders. In 2009, the expense totaled \$2,271,589, compared to \$1,321,917 in 2008. Personnel costs accounted for 92% of the expense in 2009, compared to 97% in 2008. The year on year increase is primarily in the headcount area and reflects the change in our underlying operations as our Onboard Retail Solution™ platform clients mature and seek greater client support resources.

Infrastructure support costs are related to our information technology operations and hand-held device management and include third-party costs. In 2009 the expense totaled \$3,371,072, compared to \$1,343,113 in 2008. The overall increase year on year is driven by our growth in volumes, headcount and the third-party costs related to processing and hosting of client data.

Sales and marketing expense in the year ended November 30, 2009, increased slightly to \$1,397,693 as compared to \$1,358,986 in the year ended November 30, 2008.

General and administrative expenses, during the year ended November 30, 2009, increased by 22% to \$4,118,190 compared to \$3,384,117 in the year ended November 30, 2008. The majority of the increase relates to Personnel costs which totaled \$1,018,106 in 2009 compared to \$587,356 in 2008.

Total Company headcount grew from 48 to 74 at the end of fiscal 2009.

Stock-based compensation expense for the fiscal year ended November 30, 2009 decreased 47% to \$244,694, compared to \$463,886 for the year ended November 30, 2008. The decrease is primarily due to the reduced volatility used in the Black-Scholes valuation of the 2009 stock option grants, resulting in a lower stock based compensation expense for 2009 compared to 2008.

Amortization of capital assets deployed recognizes the cost of the point-of-sale hand-held devices deployed to clients against the transaction-based revenues earned from those clients. The cost is recognized over the initial term of the contract, usually ranging from three to five years. Amortization of capital assets deployed during the year ended November 30, 2009 was \$3,883,095, an increase of 60% compared to \$2,425,308 in 2008.

During the year ended November 30, 2009, amortization of equipment increased to \$86,346, compared to \$40,426 in the year ended November 30, 2008. Due to the increase in headcount we were required to add workstations, communications and computer equipment.

### **Other Income/Expenses**

The foreign exchange gain for the year ended November 30, 2009 was \$54,611, compared to \$25,209 for the year ended November 30, 2008. Gains and losses are driven by the growing volume of overseas business denominated in Euros, Sterling and USD and the relative strength of the Canadian dollar during the last several months.

During 2009, interest income fell to \$22,654, compared to \$157,434 in the year ended November 30, 2008. The decline in interest income in fiscal 2009 was caused by two factors. The Company used its own working capital to bridge finance certain deployments until financing was available and therefore had less funds on deposit. In addition, the yield on short-term investments reached historic lows in 2009 compared to 2008.

During the year ended November 30, 2009, interest expense increased to \$517,849, compared to \$462,954 in the comparable period in 2008. The increase in interest expense is due to increase in deployments financed through capital leases.

Term loan interest and fees relate to charges on the non-revolving financing facility agreement entered into in June 2009. The Company incurred interest and charges on the term loan of \$197,670 in 2009 compared to nil in 2008.

Interest accretion expense is comprised of charges taken by the Company to accrete the fair market value of certain convertible and debt obligations with equity participation features up to their face value at their maturity date. There was no interest accretion expense in 2009 compared to \$209,821 in 2008, as the remaining holder of the 14% convertible debt instruments converted at maturity on June 30, 2008.

## **LIQUIDITY AND CAPITAL RESOURCES**

As at November 30, 2009 and November 30, 2008, GuestLogix had cash and cash equivalents totaling \$9,435,680 and \$2,650,099 respectively. Including restricted cash and cash equivalents the amounts were \$12,129,181 and \$5,545,199.

In the year ended November 30, 2009, cash generated by operating activities was \$4,869,617, compared to cash used by operating activities in the year ended November 30, 2008 of \$476,234. Cash generated by operating activities in the year ended November 30, 2009 was primarily the result of positive operating income reduced by increases in accounts receivable and inventory, offset by increases relating to addbacks of non-cash expenses including amortization of capital assets deployed, net deferred revenue, unrealized exchange difference and increases in accounts payable and accrued liabilities and supplier development loan.

In the years ended November 30, 2009 and 2008, cash used in investing activities was \$4,396,302 and \$3,375,836 respectively. Cash used in investing activities during the year ended November 30, 2009 was primarily the result of the Company using its own working capital to purchase hand-held devices to deploy to customers. The total amount expended of \$4,373,600 was offset by the gross proceeds of the term loan of \$2,400,000, for a net use of working capital of \$1,973,600.

In the years ended November 30, 2009 and 2008, cash provided by financing activities was \$6,312,266 and \$513,145 respectively. Cash provided by financing activities in the year ended November 30, 2009 resulted from a number of factors, including net proceeds from the issuance of common shares in a private placement of \$6,494,090 and proceeds from the exercise of options and warrants of \$1,203,727 and net increase in term loan of \$2,000,000 offset by repayment of capital lease obligations.

GuestLogix' principle sources of liquidity going forward are expected to be cash provided from operations and the issuance of debt to finance the point-of-sale hand-held devices deployed as part of its software platform solution.

## **SUMMARY OF UNAUDITED QUARTERLY RESULTS**

The following table sets forth unaudited statements of operations data for the eight most recent quarters ended November 30, 2009 as prepared in accordance with GAAP. The information has been derived from our unaudited financial statements that, in management's opinion, have been prepared on a basis consistent with the audited financial statements for the years ended November 30, 2009 and 2008 and include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of information presented. All financial results are in thousands, unless otherwise stated, with the exception of per share amounts.

	2009				2008			
<i>In thousands</i>	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	\$5,190	\$4,808	\$4,555	\$4,001	\$2,826	\$2,417	\$1,827	\$1,404
Net Income (Loss)	\$208	\$238	\$33	\$(252)	\$(1,961)	\$(541)	\$(1,118)	\$(651)
Basic and Diluted Income (Loss) per Share	\$0.00	\$0.00	\$0.00	\$(0.00)	\$(0.03)	\$(0.01)	\$(0.02)	\$(0.01)

## ANALYSIS OF FOURTH QUARTER RESULTS

For the three-month period ended November 30, 2009, revenue increased by 84% to \$5,190,158 compared to \$2,826,010 for the same period in 2008. Revenues have shown strong growth by quarter through fiscal 2009 driven primarily by the increase in client base deployed in North America and Europe.

Operating expenses for the three-month period ended November 30, 2009 decreased from \$4,723,931 in fiscal 2008 to \$4,324,748 in fiscal 2009.

Net income for the three-month period ended November 30, 2009 increased to \$207,648, compared with a net loss of \$1,961,219 for the same period last year.

## COMMITMENTS AND CONTRACTUAL OBLIGATIONS

GuestLogix is committed under the terms of an operating lease for its premises ending on April 30, 2013.

	Total	2010	2011	2012	2013 and Beyond
Lease obligations					
Capital leases	\$6,769,837	\$ 3,591,477	\$2,266,961	\$ 911,399	\$ -
Operating leases	561,061	165,455	167,186	161,718	66,702
Total contractual obligations	\$7,330,898	\$ 3,756,932	\$2,434,147	\$ 1,073,117	\$ 66,702

Management is of the opinion that existing cash, cash flow and financing provided through debt and lease financing provides GuestLogix with sufficient resources to finance ongoing business requirements and its planned capital expenditure program in the near term.

Additional details concerning financing are set out in the notes to the GuestLogix consolidated financial statements.

## **CAPITAL RESOURCES**

The Company does not expect to make significant capital expenditures for equipment in the near future. However the Company expects to continue to make significant capital expenditures to purchase point-of-sale devices for customer deployments within the Americas, Europe and the Asia Pacific regions. The Company intends to enter into capital leases or debt facilities on an ongoing basis to finance the acquisition of these point-of-sale payment devices. The Company expects to be cash flow positive in 2010 and will evaluate the necessity of further financing to support its 2010 deployments. GuestLogix has invested in and developed an information systems infrastructure that will scale to meet the majority of its anticipated market requirements and therefore expects to make minimal capital expenditures other than for the point-of-sale devices to finance generic business growth.

## **INCOME TAXES**

The Company has non-capital losses available for carry-forward to reduce future years' income for tax purposes totaling \$3,703,521.

## **OFF BALANCE SHEET ARRANGEMENTS**

As at November 30, 2009, the Company had no off-balance sheet arrangements.

## **PROPOSED TRANSACTIONS**

The Company does not have any proposed transactions to discuss at this time.

## **TRANSACTIONS WITH RELATED PARTIES**

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.

Interest paid or payable to shareholders during the year totaled \$nil (2008 - \$47,115).

The following table sets forth a summary of all compensation earned during the fiscal years 2008 and 2009 by the President, the Chief Financial Officer and Vice President of Corporate Development, the Executive Vice President Global Sales and Client Support Services, the Vice President and General Manager Sales and Client Support Services – Americas, and the Vice President Program Management. No other executive officer met the applicable disclosure threshold of \$150,000, based on total annual salary and bonuses paid or payable by the Corporation for either of the fiscal years 2008 and 2009.

Name and Principal Position	Fiscal Year	Annual Compensation			Long-Term Compensation Awards
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Securities Under Options Granted (#)
Tom Douramakos, President and Chief Executive Officer	2009	150,000	- (1)	18,000	200,000
	2008	150,000	79,650	18,000	147,000(2)
Brian Reddy, Chief Financial Officer and Vice President of Corporate Development	2009	140,000	- (1)	-	70,000
	2008	123,333	25,000	-	60,000 (2)
Brett Proud, Executive Vice President Global Sales and Client Support Services	2009	120,000	- (1)	-	100,000
	2008	120,000	39,825	-	73,500(2)
Tony Ashe, Vice President and General Manager Sales and Client Support Services - Americas	2009	165,360	83,000	-	93,600
	2008	150,000	76,444	-	72,000(2)
Jim Fitzgerald, Vice President OnTouch Program Management - Americas	2009	127,200	54,000	-	60,000
	2008	96,500	18,750	-	45,000(2)

(1) The Company is undertaking a review of its senior management total compensation package at this time and has not presented its findings to the Board of Directors for review and approval.

(2) Terminated

## SEGMENTED INFORMATION AND ECONOMIC DEPENDENCE

The Company manages its operations in one business segment, which is providing proprietary transaction-based on-board retail software solutions for the passenger travel industry. All significant equipment are located in Canada except for the point-of-sale hand-held devices which are deployed to the customer locations. During the year \$14,797,120 (2008 - \$6,245,915) of the Company's revenue was derived from North America, while the remainder of \$3,757,640 (2008 - \$2,227,950) was derived primarily from Europe, the Middle East and Asia Pacific.

During 2009, the five top customers accounted for 73% of the total revenue (2008 – 80%). During the fourth quarter of 2009 the top five customers accounted for 66% of total revenue in the quarter.

## **OUTSTANDING SHARE DATA**

As at November 30, 2009, GuestLogix had issued and outstanding 63,641,789 common shares, 3,928,161 stock options with exercise prices ranging from \$0.07 to \$1.40 per share, and 1,737,527 share purchase warrants with exercise prices ranging from U.S. \$0.726 to \$1.20 per share.

## **CONTINGENCIES**

In December 2006, a complaint was filed against the Company in the United States. The plaintiff was seeking compensatory damages of U.S. \$150,000 together with punitive damages of an unspecified amount. In September 2009, the parties entered into a litigation termination settlement whereby each party agreed to drop their litigation against the other. Each party agreed to pay their own costs of litigation and no monetary or other consideration was paid by either party to the other.

## **SUBSEQUENT EVENTS**

Subsequent to November 30, 2009, the Company's Board of Directors authorized the grant of 1,009,598 options to its senior officers, directors, employees and contractors. These options expire on December 30, 2014 and each option entitles its holder to purchase one share for \$0.95. These options vest as follows:

- (i) 370,000 options granted to senior officers vest annually in arrears on November 30, 2010; November 30, 2011 and November 30, 2012.
- (ii) 90,000 options granted to directors vest quarterly in arrears on March 31, 2010; June 30, 2010; September 30, 2010 and December 31, 2010.
- (iii) 549,598 options granted to employees and contractors vest annually in arrears on November 30, 2010; November 30, 2011 and November 30, 2012.

In February 2010, the Company received conditional approval to graduate from the TSX Venture Exchange and list its common shares on the Toronto Stock Exchange (the "TSX"). Final approval of the listing is subject to the Company meeting certain requirements. The Company expects to satisfy all of the necessary conditions and for its shares to begin trading on the TSX in the near future.

## CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

The Company's management, including the President and Chief Executive Officer and the Chief Financial Officer, are responsible for establishing and maintaining effective disclosure controls and procedures for the Company as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*. Management has concluded that as of November 30, 2009, such disclosure controls and procedures are effective to provide reasonable assurance that material information relating to the Company would be known to them, particularly during the period in which this report was being prepared.

### Internal Control over Financial Reporting

The Company's management, including the President and Chief Executive Officer and the Chief Financial Officer, are responsible for establishing and maintaining effective internal control over financial reporting as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*. Because of its inherent limitations, internal control over financial reporting may have material weaknesses and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As at November 30, 2009, the Company's management evaluated the effectiveness of internal control over financial reporting. Based on their evaluation, the Company's management has concluded that internal control over financial reporting is effective.

The design and operation of internal control over financial reporting is intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with applicable generally accepted accounting principles. Internal control over financial reporting should include those policies and procedures that establish the following:

- maintenance of records in reasonable detail, that accurately and fairly reflect the transactions and dispositions of assets;
- reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with applicable generally accepted accounting principles; receipts and expenditures are only being made in accordance with authorizations of management and the Board of Directors; and
- reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the

consolidated financial statements.

Management has designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with Canadian GAAP.

There have been no changes in the Company's internal control over financial reporting during the year that have materially affected, or are reasonably likely to materially affect, the Company's control over financial reporting.

### **Segregation of Duties**

Certain duties within GuestLogix' accounting and finance departments are not properly segregated due to the small number of individuals employed in these areas. None of the segregation of duty deficiencies has resulted in a material misstatement to the annual consolidated financial statements. However, these deficiencies may be considered a material weakness resulting in a more than remote likelihood that a material misstatement of GuestLogix' annual or interim consolidated financial statements would not be prevented or detected.

As GuestLogix incurs future growth, management plans to expand the number of individuals involved in the accounting and finance functions. During the year, the Company added additional staff in accounts payable, accounting supervision and financial reporting functions. At the present time, the Chief Executive Officer and Chief Financial Officer oversee all material transactions and related accounting records. In addition, the Audit Committee of GuestLogix will review on a quarterly basis the consolidated interim financial statements and key risks of GuestLogix and will query management about significant transactions, and there will be continued daily oversight by the senior management of GuestLogix.

### **Complex and Non-Routine Transactions**

As required, GuestLogix records complex and non-routine transactions. These sometimes are extremely technical in nature and require an in-depth understanding of Canadian GAAP. GuestLogix' accounting staff has only a fair and reasonable knowledge of the rules related to Canadian GAAP and reporting and the transactions may not be recorded correctly, potentially resulting in material misstatement of the consolidated financial statements of GuestLogix.

To address this risk, the GuestLogix finance staff will consult with their third party expert advisors as needed in connection with the recording and reporting of complex and non-routine transactions. In addition, an annual audit will be completed and presented to the Audit Committee of GuestLogix for its review and approval. During audits, material misstatements detected will be corrected by GuestLogix.

## **INTERNATIONAL FINANCIAL REPORTING STANDARDS ('IFRS')**

In February 2008, the Canadian Accounting Standards Board announced that 2011 is the changeover date for publicly accountable profit-oriented enterprises to use IFRS, replacing Canadian GAAP for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will commence reporting in IFRS in the first quarter of the 2012 fiscal year, with comparative figures.

The company will use a four phase approach to ensure successful conversion to IFRS, including:

- diagnostic impact assessment;
- design and planning;
- solution development and;
- implementation.

The Company has begun developing its detailed IFRS conversion plan, including commencement of an education process for management and the board of directors, and evaluating the effect of the new standards on its consolidated financial statements. Determination of the key differences between IFRS and the Company's accounting policies is in progress including an evaluation of the main potential impact on its business practices, systems, disclosure controls and procedures, and internal controls over financial reporting.

The Company has identified four major areas to date that will impact the consolidated financial statements under IFRS, including:

- change in functional currency,
- reporting expenses either by nature or by function on the statement of operations,
- revenue recognition,
- stock based compensation, and
- first time adoption of IFRS (IFRS 1).

It is not practically possible at this time to quantify the impact of these differences.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

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, GuestLogix CCS Inc. All significant intercompany transactions and balances have been eliminated.

### 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 EIC-142, Revenue Arrangements with Multiple Deliverables ('EIC 142'). EIC 142 states that delivered items should be considered separate units of accounting if delivered items have value to the customer on a standalone 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.

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 additional services being provided, the vendor recognizes revenue on the items as a whole.

Management has determined that the deliverables in these arrangements generally 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 marketplace. In some cases, the Company makes hardware only sales without any other deliverables. In these instances customers have opted not to sign contracts with the Company. Revenue in these instances is recognized when hardware is delivered and accepted by customers.

Some customers elect to purchase the equipment outright at the commencement of an arrangement. In these instances the Company recognizes the revenue and the associated cost of equipment rateably over the initial term of the arrangement.

To account for revenues and related expenses under a majority of arrangements, the Company employs sales-type lease accounting as follows. The Company sells products to certain customers under terms which approximate sales-type lease arrangements, with GuestLogix as the lessor, for periods ranging from three 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 consolidated 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 term 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 are charged to amortization expense over the initial term 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 sale 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 the risks 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 the 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 giving 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 in accordance with 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 collectability 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.

### **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.

### **Financial instruments**

Financial instruments of GuestLogix consist of cash and cash equivalents, restricted cash and cash equivalents, accounts receivable, supplier development loan, accounts payable and accrued liabilities, notes payable, obligations under capital leases and term loan.

Cash and cash equivalents and restricted cash and cash equivalents are classified as held-for-trading, which require the financial instruments to be measured at fair value and the changes in fair value are recorded in the consolidated statements of operations. The carrying value of this instrument approximates its fair value due to its short-term nature.

Accounts receivable and supplier development loan are classified as loans and receivables and are measured at amortized cost. Accounts payable and accrued liabilities, notes payable, obligations under capital leases and term loan are classified as other financial liabilities and are measured at amortized cost.

### **Equipment**

Equipment is recorded at cost. Amortization is provided on a straight-line basis over the assets estimated useful lives as follows:

Computer equipment	3 years
Furniture and fixtures	5 years

### **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 which range from three to five years.

### **Deferred cost of equipment sales**

Under certain arrangements, the Company incurs costs for hardware delivered as part of the arrangement in advance of recognizing the related revenue. As the revenue is deferred and recognized over the initial term of the arrangement, the cost of the equipment is also deferred and taken as a charge to income over the initial term of the arrangement.

**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 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 its carrying value, the asset is considered to be impaired. An impairment loss is measured as the excess of the carrying value of the asset over its fair value. As at November 30, 2009, the Company has not recorded an impairment loss.

**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 consolidated statements of operations.

**Future 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 substantively 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.

**Stock-based compensation**

The Company uses the fair value method of accounting 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 9(c). Compensation expense is recognized for stock options based on the fair value of the options at the grant date. The fair value of the options granted to employees, officers and directors is recognized over the vesting period of the options as stock-based compensation expense as a separate line item on the consolidated statements of operations. The fair value of the options granted to consultants is recognized over the period of services rendered as stock based compensation expense. If the stock options are exercised, the proceeds received are 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 rate. The Company has assumed no forfeiture rate and 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.

### **Deferred revenue**

Deferred revenue comprises lease, equipment sales, license, and services revenues. Deferred lease revenue arises when customers receive hardware to utilize the on-board retail software solutions and the terms approximate sales-type lease arrangements. In these situations, 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 term of the respective arrangements, using the discount rate implicit in each lease.

Deferred equipment sales revenue arises when customers purchase the equipment outright at the commencement of the arrangement. Deferred revenue is recognized as income monthly, on a straight line basis over the initial term of the respective arrangements.

Deferred license revenue is present where a software license is sold, in advance, covering a specific term into the future. Deferred revenue is recognized as income monthly, on a straight line basis over the terms of the respective arrangements.

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 to be performed.

### **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.

## 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.

## Earnings (loss) per share

Basic income (loss) per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted income (loss) per share is calculated using the treasury stock method. Diluted income (loss) per share reflects the potential dilution that could occur if additional common shares are assumed to be issued under securities or contracts that entitle their holders to obtain common shares in the future. Diluted loss per share is not presented when the effect on the loss per share of the exercise of stock options and warrants is anti-dilutive. In periods when the Company reports a net loss, the effect of potential issuances of shares under options and warrants would be anti-dilutive and therefore, basic and diluted loss per share is the same.

## Measurement uncertainty

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 valuation of capital assets deployed, warrant valuation, future income taxes and the valuation of stock-based compensation. While management believes that the estimates and assumptions are reasonable, actual results may differ.

## Cash and cash equivalents

The Company considers all highly liquid instruments with maturities of three months or less at the time of issuance to be cash equivalents.

Included in cash and cash equivalents is:

	<b>2009</b>	<b>2008</b>
Cash	\$ 3,135,679	\$ 1,240,601
Short-term deposits	6,300,001	1,409,498
	<b>\$ 9,435,680</b>	<b>\$ 2,650,099</b>

## Inventory

All inventories are stated at the lower of cost or realizable values. The Company's inventory consists of hand-held devices including hand-held devices awaiting deployment and replacement parts held for sale. Cost is determined on the first-in, first-out basis.

## FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Financial instruments of GuestLogix consist of cash and cash equivalents, restricted cash and cash equivalents, accounts receivable, supplier development loan, accounts payable and accrued liabilities, notes payable, obligations under capital leases and term loan. There are no significant differences between the carrying amounts of the items reported on the consolidated balance sheet and their estimated fair values.

## RISK FACTORS

### Credit Risk

GuestLogix is currently dependant on a number of large customers in Europe and the United States (see note 16). At year end, the top four accounts receivable comprised approximately 72% (2008 - 80%) of the total accounts receivable. As GuestLogix expands its offering and increases distribution of its products, management anticipates the dependency on these customers to decrease and that its accounts receivable and contract risks would also be moderated. There has been no significant write-off of accounts receivable in the years ended November 30, 2009 and 2008.

The following table provides information regarding the aging of accounts receivable that are past due but which are not impaired:

As at November 30, 2009:

Current	31 - 60 days	61-90 days	91 days +	Carrying value
\$ 2,176,556	\$ 288,823	\$ 333,322	\$ 830,299	\$ 3,629,000

As at November 30, 2008:

Current	31 - 60 days	61-90 days	91 days +	Carrying value
\$ 1,256,354	\$ 109,350	\$ 217,123	\$ 494,081	\$ 2,076,908

The definition of amounts that are past due is determined by reference to terms agreed with individual customers. No significant amounts outstanding have been challenged by the respective customers and the Company continues to conduct business with them on

an ongoing basis. Accordingly, management expects that balances are fully collectible in the future.

**Liquidity Risk**

The Company believes that at the present time it does not face significant liquidity risk as it has been able to continue to source funding for the point-of-sale hand-held devices. However, the Company has experienced an increase in the time required to secure funding, which has necessitated the Company using its own working capital to bridge-finance capital asset deployments. The Company reported positive cash-flow from operations during 2009 which mitigates liquidity risk.

**Market Risk**

Interest rate

Cash equivalents and restricted cash equivalents are invested in money market instruments of varying maturities less than 90 days. 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 but invests in Canadian Schedule A bank instruments. The Company does not believe that there is a significant interest rate risk, due to the short-term nature of its investments.

The Company is also exposed to interest rate risk as a result of the term loan. The interest on the term loan is 3% per annum plus the rate of prime, thus the Company faces interest rate exposure with prime rate fluctuations.

*Sensitivity Analysis*

Based on management's knowledge and experience on the finance market, the Company believes the following movements are 'reasonably possible' over a six month period.

	<b>Impact on net profit</b>
	\$
Change of +/- 1% in rate of prime	+/- 9,000

Foreign exchange

GuestLogix is exposed to foreign exchange risk as a result of transactions in currencies other than its functional currency of the Canadian Dollar. The majority of GuestLogix' revenues are transacted in U.S. Dollars, Euros and Sterling. Purchases of equipment required to deliver on GuestLogix' contracts are primarily transacted in U.S. Dollars.

GuestLogix does not currently use derivative instruments to hedge against foreign exchange risk as it has a significant natural hedge in U.S. Dollars.

### *Sensitivity Analysis*

Based on management's knowledge and experience on the finance market, the Company believes the following movements are 'reasonably possible' over a six month period.

	<b>Impact on net profit</b>	
		\$
Change of +/- 10% in US \$ foreign exchange rate	+/-	41,440
Change of +/- 10% in Euro € foreign exchange rate	+/-	52,260
Change of +/- 10% in GBP £ foreign exchange rate	+/-	23,410
Change of +/- 10% in SGD \$ foreign exchange rate	+/-	1,850

The above results arise primarily as a result of the Company having US \$ denominated cash and cash equivalents, restricted cash and cash equivalents, accounts receivable, supplier development loan, account payable and accrued liabilities, capital lease obligations and GBP £, Euro € and SGD \$ denominated accounts receivable.

### *Limitations of sensitivity analysis*

The above table demonstrates the effect of change in foreign exchange rates. The financial position of the Company may vary at the time that change in foreign exchange occurs, causing the impact on the Company's results to differ from that shown above.

## **RECENTLY ADOPTED PRONOUNCEMENTS**

### **Goodwill and Intangible Assets**

In January 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, which replaces Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. The standard provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition as well as clarifying the application of the concept of matching revenues and expenses, whether these assets are separately acquired or internally developed. This standard was adopted by the Company on December 1, 2008. The application of this section did not have a material effect on the Company's financial position and results of operations.

### **Inventories**

In June 2007, the CICA issued Handbook Section 3031, Inventories. This Section supersedes Handbook Section 3030, Inventories and is based on International Financial Reporting Standard IAS 2 Inventories. The Section prescribes the accounting treatment for inventories and was adopted by the Company on December 1, 2008. The application

of this section did not have a material effect on the Company's financial position and results of operations.

### **RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED**

In January 2009, the CICA issued Handbook Sections 1582, Business Combinations ('Section 1582'), 1601, Consolidated Financial Statements ('Section 1601') and 1602, Non-controlling Interests ('Section 1602'). Section 1582 replaces CICA Handbook Section 1581, Business Combinations, and establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards. Section 1582 is applicable prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011, with early adoption permitted. Section 1601 together with Section 1602 replaces CICA Handbook Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Sections 1601 and 1602 are applicable for interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011, with early adoption permitted. An entity must adopt Sections 1582, 1601 and 1602 at the same time. The Company plans to adopt these standards effective December 1, 2010 and does not expect the adoption will have a material impact on the results of its operations or financial position.

### **RISKS AND UNCERTAINTIES**

The Company operates in a dynamic, rapidly changing environment that involves risks and uncertainties. An investment in GuestLogix common shares is speculative and involves a high degree of risk and uncertainty. Such risks relate to and include, without limitation: its ability to predict whether it will meet internal or external expectations, its ability to offer competitive pricing for its products, its ability to finance its transaction-based business model, its ability to maintain its current relationships and develop new strategic relationships, its ability to attract and retain qualified employees, its internal controls, its ability to develop new technology, the Company's limited operating history and evolving business model.

Global travel demand will likely remain weak over the next 12 months. Global economies, while showing fitful signs of recovery remain a long way from being healthy. Financial markets continue to deal with the fallout of a crisis in credit markets and are struggling to return to normal in most countries. Volatile financial market conditions are likely to continue through 2010 as credit and liquidity concerns persist. We anticipate that global government intervention will continue as the fear of removing support too early will outweigh the concerns of stoking inflation. This stimulus should improve financial market operations through 2010 which should strengthen consumer and business confidence going forward.

As an emerging company with customers located globally, GuestLogix faces a number of economic risks and business uncertainties. Today, we have customers in Canada, the United States, Europe, Middle East, and Asia. Factors such as foreign exchange rates, consumer spending, global warming and the passenger travel industry impact on the environment, interest rates, business and government investment and spending, the rate of inflation and threats of terrorism affect the business and economic environments in which our customers operate and are largely out of our control. In addition, our current concentration within the airline sector exposes us to the additional risk of the impact of volatile jet fuel prices on airline schedules and the overall passenger traffic volumes. Additionally, due to the financial weakness within the airline sector, particularly in North America, GuestLogix may have difficulty financing its transaction-based business model in the future.

Our consolidated financial statements are expressed in Canadian dollars, but a large portion of our business is conducted in other currencies. Changes in the exchange rates for these other currencies can increase or decrease our revenues, expenses, earnings and the carrying value of assets or liabilities in our balance sheet. Our largest exposure is to the US dollar, where we have a partial natural hedge against revenues as our manufacturer of the hand-held device and peripherals prices in US dollars. We do not use derivative instruments to hedge our currency exposure.

GuestLogix faces risks which are inherent in the business. We expect that the passenger travel industry will move towards 'back of the seat' interactive solutions and services which will over time reduce the demand for hand-held point-of-sale devices. However, our software solution is fully compatible with 'back of the seat' installations. We do not expect in the near future to witness the demise of the hand-held device as many airlines will not retro-fit their fleets to the 'back of the seat' solution due to the added weight, cost of retro-fitting and the age of aircraft in their fleet. Any devices we take back into inventory at the end of an agreement can be utilized in other contracts. The growing demand for Wi-Fi on airplanes which is primarily a North American phenomenon does not pose a material risk to the GuestLogix business model as our platform is fully compatible with this communications medium.

Other risks faced by GuestLogix are related to the segment of the passenger travel industry in which it operates. There is intense competition between airlines which could prevent GuestLogix from increasing its sales in the near and longer term. Low cost airline carriers are being challenged by inter-city rail carriers, particularly in Europe. To mitigate these particular risks, a focus for 2010 is to penetrate the passenger rail travel industry in Europe and expand our airline footprint in the Asia Pacific region.

Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of the risks as described in our filings occur, our business, financial condition, liquidity or results of operations could be materially harmed.