



**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
FOR THE THREE-MONTH PERIOD ENDED FEBRUARY 28, 2010**

**Dated: April 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 three-month period ended February 28, 2010 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 April 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.

## 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 enables 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 February 28, 2010. Across the global passenger industry GuestLogix has in place agreements to serve over 947 million passenger trips annually, with 777 million currently deployed.

## OVERVIEW

### Financial Highlights for the quarter

- Revenue was \$6,020,535 for the three-months ended February 28, 2010, compared to \$4,001,259 for the three-months ended February 28, 2009.
- EBITDA<sup>1</sup> was \$1,840,755 for the three-months ended February 28, 2010, compared to \$828,998 for the three-months ended February 28, 2009.
- EBITDA before stock based compensation expense was \$1,945,755 for the three-months ended February 28, 2010, compared to \$921,800 for the three-months ended February 28, 2009.
- Net profit was \$252,789 for the three-months ended February 28, 2010, compared to a net loss of \$(251,712) for the three-months ended February 28, 2009.
- GuestLogix' cash and cash equivalents totaled \$8,490,999 as at February 28, 2010, compared to \$9,435,680 as at November 30, 2009.
- GuestLogix' cash and cash equivalents including restricted cash and cash equivalents totaled \$11,175,099 as at February 28, 2010, compared to \$12,129,181 as at November 30, 2009.

- (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.

## **Growth Strategy and Future Outlook**

Our strategy is to penetrate the global passenger travel industry as quickly as possible through direct sales and the utilization of strategic partnerships, with the objective of becoming the premier global provider of onboard retail merchandising solutions. In providing an innovative no-capital outlay up front software and hardware solution, we have been able to capture approximately 35% of the global airline passenger travel industry during the past three years.

We continued our efforts to expand our global platform footprint during the quarter by completing deployments in Europe ('EMEA') and Asia Pacific ('AsiaPac') and adding to our client base under agreement within North America. We continue to invest in our underlying infrastructure, including the OnTouch™ merchandising service, technology, business processes, skilled labor and organizational structure, to support the continued growth of our global footprint. To assist in developing and supporting our global reach we have also added headcount in EMEA and AsiaPac.

In June 2009, we launched our new global merchandising service, OnTouch™, which enables in-flight merchandising powered by our 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 continue to add destination-relevant vendors in each of the six program categories and now have the ability to provide coverage across the world's top 50 airports. In December, we deployed two of the programs with one airline and are actively working with a number of clients on implementing OnTouch™ over the coming months across all six programs.

The airline industry is beginning to recognize the significant opportunity that exists to generate incremental revenues from their passengers. By providing their passengers with on board destination relevant products or specific services, airlines today can generate net new non-ticket revenues and differentiate their brands. These ancillary revenues can provide margins in excess of 40%, while ticket prices provide profit margins of between 2% and 4%. We are well positioned to continue to develop and support this previously undeveloped on board marketplace.

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 build out our infrastructure may cause operating losses in the future. In particular, we continue to have aggressive growth targets for our OnTouch™ merchandising services; the EMEA and AsiaPac geographies; and, the European rail sector all of which require us to invest in advance of generating revenues.

## Global Market Conditions

Economic conditions in our key markets continued to improve through the first quarter of 2010. The World Bank believes the global recovery will continue but slow in the second half of the year as inventories are rebuilt and government support programs are withdrawn. This will result in employment growth globally remaining weak which will impact the expansion of global travel demand. Travel demand continues to be weak generally, especially business travel, but overall demand has begun to strengthen and the industry expects to be back to pre-recession traffic levels in two to three months. There are some regional bright spots such as the AsiaPac and Middle Eastern areas with airlines posting strong growth in international passenger volumes in February 2010. However, a full recovery is not expected until the industry adjusts to two years of lost growth. The International Air Traffic Association ('IATA') has indicated that they do not expect passenger load factors to improve significantly from current levels of around 76% 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, with Europe expected to post US\$2.2 billion in losses, the highest among the regions. Oil prices continue to fluctuate causing continuing uncertainty and adding to the airlines significant cost pressures. A number of legacy carriers continue to face 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 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 continue to grow through the early part of 2010.

Our focus for platform growth in 2010 is on markets outside North America. AsiaPac, where passenger travel demand is growing rapidly is forecasted by IATA to lose money in 2010. IATA also forecasts that European airlines as a group will lose money in 2010. This uncertain financial performance may be reflected in the availability of credit facilities to fund our new client base in this region. However, we expect to remain cash flow positive throughout 2010. Consequently these regions' financial uncertainty may not be an impediment to our continued expansion, as we expect to be able to fund device purchases internally.

As most of our business is conducted with clients outside Canada, we are being impacted by the strength of 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. However, as we move through 2010 we will monitor our currency exposures with a view to developing a financial hedging strategy. We continue to enjoy a significant natural hedge in US dollars with the majority of our revenues currently generated from our United States clients. The Company's supplier of hand-held devices and peripheral equipment, our largest absolute expenditure, prices its products in US dollars.

While global economic conditions are expected to remain fragile and 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 three-months ended February 28, 2010 and February 28, 2009:

	For the three-months ended		Change \$	Change %
	February 28 2010 (unaudited)	February 28 2009 (unaudited)		
<b>Consolidated Statements of Operations Data:</b>				
<b>Revenue</b>	<b>\$6,020,535</b>	<b>\$4,001,259</b>	<b>\$2,019,276</b>	<b>50.47%</b>
<b>Expenses:</b>				
Cost of equipment sale	875,600	592,767	282,833	47.71
Research and development	219,079	108,066	111,013	102.73
Customer delivery and support	569,821	472,095	97,726	20.70
Infrastructure support	1,034,750	776,709	258,041	33.22
Sales and marketing	511,631	261,318	250,313	95.79
General and administrative	863,899	868,504	(4,605)	(0.53)
Stock-based compensation	105,000	92,802	12,198	13.14
Amortization of capital assets deployed	1,291,653	867,941	423,712	48.82
Amortization of property and equipment	21,613	20,782	831	4.00
	<b>5,493,046</b>	<b>4,060,984</b>	<b>1,432,062</b>	<b>35.26</b>
<b>Income (Loss) from operations</b>	<b>527,489</b>	<b>(59,725)</b>	<b>587,214</b>	<b>(983.19)</b>
<b>Other income (expense):</b>				
Foreign exchange gain (loss)	(33,107)	(101,557)	68,450	(67.40)
Interest earned	3,694	15,937	(12,243)	(76.82)
Interest expense	(150,113)	(106,367)	(43,746)	41.13
Term loan interest and expenses	(95,173)	-	(95,173)	-
	<b>(274,700)</b>	<b>(191,987)</b>	<b>(82,713)</b>	<b>43.08</b>
<b>Net income (loss) for the period and comprehensive income (loss)</b>	<b>\$ 252,789</b>	<b>\$(251,712)</b>	<b>\$504,501</b>	<b>200.43%</b>
<b>Supplementary Financial Data</b>				
Income (Loss) per share	\$0.00	\$(0.00)		
Weighted average number of Shares outstanding	58,559,745	55,495,438		
<b>Consolidated Balance Sheets Data:</b>				
	<b>February 28, 2010</b>	<b>November 30, 2009</b>		
Cash and cash equivalents, excluding restricted cash and cash equivalents	\$8,490,999	\$9,435,680		
Working capital	\$ 5,960,915	\$5,355,694		
Total assets	\$39,513,654	\$39,962,317		
Long-term liabilities, excluding current portion	\$11,656,004	\$11,966,612		
Total shareholders' equity	\$14,235,834	\$13,841,671		

**COMPARISON OF THE THREE-MONTHS ENDED FEBRUARY 28, 2010 AND 2009****Revenue**

The Company continued to grow strongly in the first quarter of 2010 with sequential revenue growth of \$830,377 or 16% quarter over quarter, from \$5,190,158 to \$6,020,535. Year over year growth for the three-months ended February 28, 2010 was \$2,109,276 or 50%, at \$6,020,535 versus \$4,001,259 for the three-months ended February 28, 2009. Revenue in constant currency would have been \$6,153,911 for the quarter, as measured against exchange rates in effect at November 30, 2009.

**Operating Expenses**

Cost of equipment sales were \$875,600 for the three-month period ended February 28, 2010 compared to \$592,767 for the same period in 2009. 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 \$219,079 for the three-month period ended February 28, 2010 compared to \$108,066 for the same period in 2009. The increase relates to the Company further investing in the development of its OnTouch™ onboard store technology platform. Personnel costs including benefits accounted for approximately 95% of the total expense during both periods.

Customer delivery expenses are related to placing the software solution into production at the client site including development and software change orders. In the three-month period ended February 28, 2010 expenses totaled \$569,821, compared to \$472,095 for the same period in 2009. Personnel costs accounted for over 95% of the expenses in both periods. The 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 the three-month period ended February 28, 2010 the expense totaled \$1,034,750, compared to \$776,709 for the same period in 2009. The overall increase 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 for the three-month period ended February 28, 2010, increased to \$511,631 compared to \$261,318 for the same period in 2009. The overall increase is driven by expenditures related to the OnTouch™ program. As well we have added headcount in EMEA and AsiaPac in the quarter.

General and administrative expenses for the three-month period ended February 28, 2010, decreased slightly to \$863,899 compared to \$868,504 for the same period in 2009. General

and administrative personnel costs totaled \$322,129 for the three-months ended February 28, 2010 compared to \$147,457 for the same period in 2009. Legal fees declined to \$285,095 in the quarter down from \$341,041 for the same period in 2009.

Our investment in OnTouch™ grew in the quarter. Within the various expense categories, costs totaling \$370,761 relate to the OnTouch™ merchandising service. Personnel costs comprised \$355,652 or 96% of the total costs during the first quarter of 2010.

Total Company headcount grew from 54 at the end of February 28, 2009 to 75 at the end of the first quarter 2010, and up from 74 as at November 30, 2009. It is expected that headcount will continue to grow through the second half of 2010 as the Company continues to expand its global footprint and the OnTouch™ merchandising service is rolled out to new and existing clients.

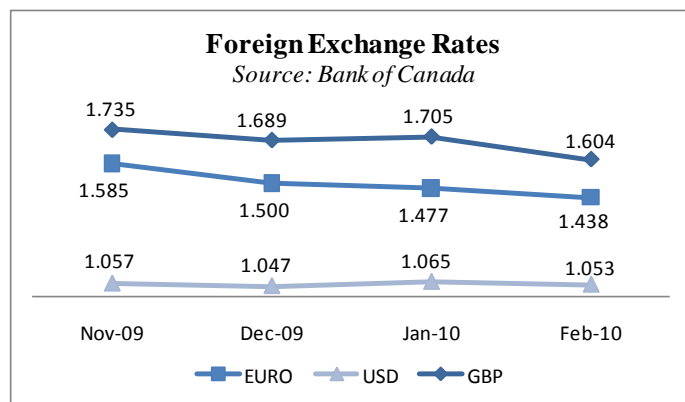
Stock-based compensation expense for the three-month period ended February 28, 2010 increased 13% to \$105,000, compared to \$92,802 for the same period in 2009. The increase is due to a higher average exercise price used in the Black-Scholes valuation for stock options granted in the three-month period ended February 28, 2010 compared to the same period in 2009.

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 for the three-month period ended February 28, 2010 was \$1,291,653, an increase of 49% compared to \$867,941 for the comparable period in 2009.

During the three-month period ended February 28, 2010, amortization of equipment totaled \$21,613, compared to \$20,782 for the same period in 2009.

### **Other Income/Expenses**

The foreign exchange loss for the three-month period ended February 28, 2010 was \$33,107, compared to \$101,577 for the comparable period in 2009. 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. The following graph shows the change in foreign exchange rates relative to the Canadian dollar for the four most recent months:



As the majority of the Company's revenues are denominated in foreign currencies, revenues are impacted by exchange rate fluctuations. For the three-months ended February 28, 2010, the company lost approximately \$133,000 in revenues primarily due to the decline in the Euro and Sterling as shown in the graph above. The company does not currently use derivative instruments to hedge against foreign exchange risk as it has a significant natural hedge in U.S. Dollars.

For the three-month period ended February 28, 2010, interest income fell to \$3,693, compared to \$15,937 for the same period in 2009, primarily due to the historically low yields on short-term investments.

For the three-month period ended February 28, 2010, interest expense increased to \$150,113, compared to \$106,367 for the comparable period in 2009. 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 \$95,173 during the three-months ended February 28, 2010.

## LIQUIDITY AND CAPITAL RESOURCES

As at February 28, 2010 and November 30, 2009, GuestLogix had cash and cash equivalents totaling \$8,490,999 and \$9,435,680 respectively. Including restricted cash and cash equivalents the amounts were \$11,175,099 and \$12,129,181.

In the three-month period ended February 28, 2010, cash generated by operating activities was \$824,275, compared to cash used by operating activities of \$549,454 for the same period in 2009. Cash generated by operating activities in the first quarter of 2010 was primarily the result of positive operating income reduced by an increase in accounts receivable and decreases of accounts payable and accrued liabilities, offset by a decrease in inventory and increases relating to the add backs of non-cash expenses including amortization of capital assets deployed, amortization of deferred cost of equipment sales, unrealized exchange difference, and stock based compensation expense.

In the three-month period ended February 28, 2010, cash used in investing activities was \$788,455, compared to cash generated by investing activities of \$134,762 for the same period in 2009. Cash used in investing activities during the first quarter of 2010 was primarily the result of the Company using its own working capital to purchase hand-held devices to deploy to new customers.

In the three-month periods ended February 28, 2010 and February 28, 2009, cash used in financing activities was \$980,501 and \$694,567 respectively. Cash used in financing activities during the first quarter of 2010 was primarily the result of the repayment of the principal on capital lease obligations and the term loan.

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 February 28, 2010 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 consolidated 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.

	2010	2009				2008		
<i>In thousands</i>	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	\$6,021	\$5,190	\$4,808	\$4,555	\$4,001	\$2,826	\$2,417	\$1,827
Net Income (Loss)	\$253	\$208	\$238	\$33	\$(252)	\$(1,961)	\$(541)	\$(1,118)
Basic and Diluted Income (Loss) per Share	\$0.00	\$0.00	\$0.00	\$0.00	\$(0.00)	\$(0.03)	\$(0.01)	\$(0.02)

## COMMITMENTS AND CONTRACTUAL OBLIGATIONS

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

	<b>Total</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013 and Beyond</b>
Lease obligations					
Capital leases	\$5,760,003	\$ 3,285,885	\$1,689,744	\$ 784,374	\$ -
Operating leases	511,705	141,940	166,541	147,850	55,374
Total contractual obligations	\$6,271,708	\$ 3,427,825	\$1,856,285	\$ 932,224	\$ 55,374

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 capital expenditures to purchase point-of-sale devices for customer deployments within the Americas, EMEA and the AsiaPac 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 throughout 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 February 28, 2010, 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.

## **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 is located in Canada except for the point-of-sale handheld devices which are deployed to the customer locations. During the three-months ended February 28, 2010, \$4,549,356 of the Company's revenue (2009 - \$3,284,567) was derived from North America, while the remainder of \$1,471,179 (2009 - \$716,602) was derived primarily from Europe, the Middle East and Asia Pacific.

During the three-months ended February 28, 2010, the five top customers accounted for 62% of the total revenue (2009 – 85%).

## **OUTSTANDING SHARE DATA**

As at February 28, 2010, GuestLogix had issued and outstanding 63,803,394 common shares, 5,049,479 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.

## **SUBSEQUENT EVENTS**

The Company received final approval of listing its common shares on the Toronto Stock Exchange (the "TSX"), and began trading on the TSX March 1, 2010.

## **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 February 28, 2010, 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 February 28, 2010, 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.

Subsequent to the quarter end, the Company added a Vice President of Corporate Finance to oversee the day-to-day operations of the finance function, and to strengthen the internal controls and processes over financial reporting. There have been no changes in the Company's internal control over financial reporting during the period that have materially affected, or are reasonably likely to materially affect, the Company's control over financial reporting.

## **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')**

The company is currently implementing its IFRS transition plan and will commence reporting in IFRS in the first quarter of the 2012 fiscal year, with comparative figures. The company is using a four phase approach to ensure successful conversion to IFRS, including:

- diagnostic impact assessment (December 2009 – March 2010);
- design and planning (March 2010 – November 2011);
- solution development and (July 2010 – November 2011); and
- implementation (December 2011).

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, financial accounting systems, disclosure controls and procedures, and internal controls over financial reporting.

As part of the diagnostic impact assessment, the Company has identified five 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).

Additional areas may be identified as a result of changes to the Company's business or as IFRS standards are developed or amended.

It is not practically possible at this time to quantify the impact of these differences. The company is currently in discussions with a third party to assist in the transition plan and expects to make a decision as to the extent of their involvement in the near future.

## **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.

### **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, 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.

### **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.

### **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.

### **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.

### 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 up to 90 days at the time of issuance to be cash equivalents.

Included in cash and cash equivalents is:

	February 28, 2010	November 30, 2009
Cash	\$ 2,238,901	\$ 3,135,679
Short-term deposits	6,252,098	6,300,001
	<u>\$ 8,490,999</u>	<u>\$ 9,435,680</u>

### 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, 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. At year end, the top 4 accounts receivable balances comprised approximately 76% (November 30, 2009 - 72%) 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 three-months ended February 28, 2010.

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

As at February 28, 2010:

Current	31 - 60 days	61-90 days	91 days +	Carrying value
\$ 3,139,642	\$ 120,204	\$ 583,709	\$ 784,574	\$ 4,628,129

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

Subsequent to February 28, 2010, the Company collected \$1,877,521 of the accounts receivable balance including \$473,905 from the 91 days + category.

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 for the three-months ended February 28, 2010, and expects to be cash-flow positive for the remainder of fiscal 2010 which mitigates liquidity risk.

**Market Risk**

Interest rate

Cash equivalents and restricted cash equivalents are invested in money market instruments of varying maturities up to 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	-/+ 8,000

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	+/-	78,200
Change of +/- 10% in Euro € foreign exchange rate	+/-	85,140
Change of +/- 10% in GBP £ foreign exchange rate	+/-	10,610
Change of +/- 10% in SGD \$ foreign exchange rate	+/-	2,360

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 those changes in foreign exchange rates occur, causing the impact on the Company's results to differ from that shown above.

## **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.

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 interim 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 US dollar 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 and the use of personal devices onboard, which over time may reduce the demand for hand-held point-of-sale devices. However, our software solutions are fully compatible with these solutions and mobile devices. 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.