



**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
FOR THE THREE AND NINE-MONTH PERIODS ENDED AUGUST 31, 2010**

**Dated: October 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 and nine-month periods ended August 31, 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 October 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 provides technology and merchandising solutions that enable operators in the passenger travel industry to create their own branded onboard stores. The Company helps operators create, manage and control onboard retail operations tailored to their needs and the needs of their passengers, and enables access to onboard stores at any touch point throughout a passenger's travel journey. Through its OnTouch™ technology and merchandising platforms, the Company has partnered with leading global product and service providers in order to provide travel-relevant destination based products and services to passengers, while helping operators enhance the passenger travel experience. OnTouch™ helps operators turn travellers into consumers by monetizing the entire passenger travel journey and thereby creating sustainable ancillary revenues.

The Company, through its standard retail operating platform, has pioneered the development and implementation of ancillary-revenue generating solutions for airlines. The world's leading airline brands such as American, Delta, Northwest, United, US Airways, Southwest, Continental, British Airways, KLM, Ryanair, Qantas, 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 38% market share of the global airline industry passenger traffic at August 31, 2010. Across the global passenger industry GuestLogix has in place agreements to serve over 1 billion passenger trips annually, with 927 million currently deployed.

## OVERVIEW

### Financial Highlights for the quarter

- ✚ Revenue was \$6,803,495 for the three-months ended August 31, 2010, compared to \$4,808,161 for the three-months ended August 31, 2009.
- ✚ EBITDA<sup>1</sup> was \$1,502,718 for the three-months ended August 31, 2010, compared to \$1,302,422 for the three-months ended August 31, 2009.
- ✚ EBITDA before stock based compensation expense was \$1,597,718 for the three-months ended August 31, 2010, compared to \$1,382,422 for the three-months ended August 31, 2009.
- ✚ Net profit was \$138,866 for the three-months ended August 31, 2010, compared to \$237,880 for the three-months ended August 31, 2009.
- ✚ GuestLogix' cash and cash equivalents totaled \$8,777,220 as at August 31, 2010, compared to \$9,435,680 as at November 30, 2009.
- ✚ GuestLogix' cash and cash equivalents including restricted cash totaled \$11,436,970 as at August 31, 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 quickly through direct sales and the utilization of strategic partnerships and grow our footprint with the premier operators in the air and rail sectors. In providing an innovative no-capital outlay up front software and hardware fully integrated on board solution, we have been able to secure contracts with over 38% of the world's airlines during the past four 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. During the quarter we also submitted a number of requests for proposal where we have been successful in moving to the final selection stage. We continue to invest in our underlying infrastructure, including investments in the OnTouch™ merchandising service, technology, business processes, skilled labor and our global organizational structure to support our evolving business. The Company's focus for platform growth in 2011 is in the AsiaPac region. We recently entered into channel partnerships with Inflight Sales Group ('ISG') and Alpha Flight Services ('Alpha') which represent annual passenger trips of 156 million and 69 million respectively. During the quarter, and via our relationship with Alpha, we deployed Qantas Airlines with total annual passenger trips of 39 million. We hope to further leverage these two channel partnerships into significant revenue growth for the AsiaPac region in 2011.

The airline industry is beginning to recognize the significant opportunity that exists to generate incremental revenues from their passengers. By providing their passengers with 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.

In June 2009, we launched OnTouch™ which is the technology and merchandising platforms that allow operators to sell destination-based travel relevant products and services onboard to realize numerous ancillary revenue opportunities. The OnTouch™ merchandising platform consists of six categories 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 categories and we now have the ability to provide coverage across the world's top 200 destinations. We are at various stages with 22 merchandising programs under four (4) of the OnTouch™ categories in North America. We are actively working with a number of clients on implementing further OnTouch™ trials over the coming months covering all six categories with North American, European and AsiaPac clients. In addition, the Company will focus on harnessing more touch points with the traveler, by expanding through additional offboard product and service offerings. For example, we are enabling passengers to access onboard stores via hand-held devices, kiosks, smartphones, and the web, while keeping a consistent and intuitive user interface for passengers.

We are also looking to expand and establish our footprint in the European rail sector. This sector presents tremendous growth opportunities as it is approximately 8.5 times the size of the airline industry in terms of passenger trips at 21.0 billion globally. We are currently targeting partnerships with rail clients in the EMEA region representing 1.2 billion passenger trips annually. We currently have agreements covering three clients in the rail sector representing 75 million passenger trips annually and are looking to form channel partnerships with a number of additional rail clients in 2011.

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 platform; 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**

General economic conditions in our key markets, while showing some improvement over the quarter, continued to present challenges. Economic growth is still spotty and while business confidence is growing, albeit slowly, consumer confidence remains fragile.

The overall health of the airline industry continued to improve in the quarter. IATA now expects airlines to post a global profit of \$8.9 billion US in 2010, a major improvement compared to its previous forecast released in June 2010 of \$2.5 billion US. The improved outlook is due to increased demand and disciplined capacity management leading to higher revenues, combined with the relative stabilization of costs.

Overall travel demand has been improving as traffic is currently up 3-4% from pre-crisis levels of early 2008. Business travelers on premium seats have boosted average yields, and demand in 2010 is expected to grow by 11% overall. Passenger load factors have improved, particularly in AsiaPac, with global load factors now hovering around 82%. Oil prices have remained relatively stable, with IATA forecasting an average annual oil price of \$79 US/barrel, unchanged from the most recent forecast. Fuel continues to account for 25% of industry costs, which continues to add to the airlines significant cost pressures.

While global economic uncertainties are expected to continue for several more quarters we expect that our existing and target customers will continue the drive to improve their financial performance. A key contributor to their efforts in this regard will be to provide enhanced travel related services to their passengers through ancillary revenue offerings.

In the North American market, where GuestLogix has over 90% of the carriers under agreement, airlines have tended to be quicker to adjust to market conditions and are now expected to post a profit of \$3.5 billion US in 2010 as a group, up from \$1.9 billion from the June forecast. This is the result of increased freight and air travel growth, and also the move to expand onboard retail offerings and the introduction of a “cashless cabin”. Ancillary revenues and volume of on-board transactions have continued to grow through the third quarter of 2010.

Our focus for platform growth for the last quarter of 2010 and 2011 is on markets outside North America. AsiaPac, where passenger travel demand is growing rapidly, is forecasted by IATA to post a profit of \$5.2 billion US in 2010, the largest forecasted profit of any region. The growth is driven by improvements in the air freight markets and a surge in business travel. Latin America and the Middle East are forecast by IATA to post combined profits of \$1.5 billion.

Alternatively, IATA forecasts that European airlines as a group will post a \$1.3 billion US loss in 2010, an improvement compared to its previous forecast in June of \$2.8 billion US. The gains are attributable to increased traffic in Europe, boosted by a low currency which has stimulated exports and improved air cargo business.

## RESULTS OF OPERATIONS

The table below sets out the statement of operations for the three and nine-months ended August 31, 2010 and August 31, 2009:

	For the three-months ended		For the nine-months ended	
	August 31 2010	August 31 2009	August 31 2010	August 31 2009
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Consolidated Statements of Operations Data:</b>				
<b>Revenue</b>	<b>\$6,803,495</b>	<b>\$4,808,161</b>	<b>\$19,260,880</b>	<b>\$13,364,602</b>
<b>Operating expenses:</b>				
Cost of equipment sales	1,074,816	450,979	3,055,444	1,572,866
Research and development	196,079	84,519	670,674	308,069
Customer delivery and support	548,287	554,040	1,552,230	1,569,706
Infrastructure support	1,368,744	1,029,134	3,440,955	2,723,399
Sales and marketing	493,160	261,828	1,560,374	926,574
General and administrative	1,524,691	1,045,239	3,656,835	2,828,618
Stock-based compensation	95,000	80,000	289,580	254,346
Amortization of capital assets deployed	1,322,153	1,045,344	3,912,889	2,714,113
Amortization of equipment	24,090	28,277	68,530	62,159
	<b>6,647,020</b>	<b>4,579,360</b>	<b>18,207,511</b>	<b>12,959,850</b>
<b>Income from operations</b>	<b>156,475</b>	<b>228,801</b>	<b>1,053,369</b>	<b>404,752</b>
<b>Other income (expenses):</b>				
Foreign exchange gain	170,029	203,159	22,956	70,818
Interest earned	6,428	1,870	19,274	20,156
Interest expense	(105,883)	(126,366)	(366,411)	(406,634)
Term loan interest and fees	(88,453)	(69,583)	(284,849)	(69,583)
	<b>(17,609)</b>	<b>9,079</b>	<b>(609,030)</b>	<b>(385,244)</b>
<b>Net income and comprehensive income for the period</b>	<b>\$ 138,866</b>	<b>\$ 237,880</b>	<b>\$444,339</b>	<b>\$ 19,508</b>
<b>Supplementary Financial Data</b>				
Basic and diluted earnings per share	\$0.00	\$0.00	\$0.01	\$0.00
Weighted average number of common shares used in basic earnings per share	63,948,437	56,792,583	63,947,051	55,931,308
Weighted average number of common shares used in diluted earnings per share	65,924,972	60,126,344	66,010,065	59,265,069
<b>Consolidated Balance Sheets Data:</b>				
	<b>August 31, 2010</b>	<b>November 30, 2009</b>		
Cash and cash equivalents, excluding restricted cash and cash equivalents	\$8,777,220	\$9,435,680		
Working capital	\$6,487,569	\$5,355,694		
Total assets	\$38,382,129	\$39,962,317		
Long-term liabilities, excluding current portion	\$9,833,803	\$11,966,612		
Total shareholders' equity	\$14,752,459	\$13,841,671		

**COMPARISON OF THE THREE AND NINE-MONTHS ENDED AUGUST 31, 2010 AND 2009****Revenue**

The Company continued to grow in the third quarter of 2010 with sequential growth of \$366,645 or 6% quarter over quarter, from \$6,436,850 to \$6,803,495. Year over year growth for the three-months ended August 31, 2010 was \$1,995,334 or 41%, at \$6,803,495 versus \$4,808,161 for the three-months ended August 31, 2009. For the nine-month periods ended August 31, 2010 and 2009, revenue was \$19,260,880 and \$13,364,602 respectively. Revenue in constant currency would have been \$7,152,981 for the quarter, and \$20,099,448 year to date, as measured against exchange rates in effect at November 30, 2009.

**Operating Expenses**

Cost of equipment sales were \$1,074,816 for the three-month period ended August 31, 2010 compared to \$450,979 for the same period in 2009. Cost of equipment sales for the nine-month periods ended August 31, 2010 and 2009 were \$3,055,444 and \$1,572,866 respectively. 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 and the amortization costs related to the purchase of hand-held devices outright at the beginning of an agreement.

Research and development expense were \$196,079 for the three-month period ended August 31, 2010 compared to \$84,519 for the same period in 2009. Research and development costs for the nine-month periods ended August 31, 2010 and 2009 were \$670,674 and \$308,069 respectively. The increase relates to the Company further investing in the development of its OnTouch™ onboard store technology platform. Personnel costs including benefits accounted for over 80% 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 August 31, 2010 expenses totaled \$548,287, compared to \$554,040 for the same period in 2009. For the nine-month periods ended August 31, 2010 and 2009 these expenses were \$1,552,230 and \$1,569,706 respectively. Personnel costs accounted for over 95% of the expenses in both periods. The slight decrease is primarily due to software development costs that have been capitalized during the last two quarters, consisting of labour costs of personnel directly engaged in development activities of the Company's OnTouch™ merchandising platform. Overall, headcount in this area has increased 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 outsourced costs. In the three-month period ended August 31, 2010 expenses totaled \$1,368,744, compared to \$1,029,134 for the same period in 2009. For the nine-month periods ended August 31, 2010 and 2009 these expenses were \$3,440,955 and \$2,723,399 respectively. The overall increase is

driven by our growth in volumes, headcount and the third-party outsourced costs related to processing and hosting of client data.

Sales and marketing expense for the three-month period ended August 31, 2010, increased to \$493,160 compared to \$261,828 for the same period in 2009. For the nine-month periods ended August 31, 2010 and 2009 these expenses were \$1,560,374 and \$926,574 respectively. The overall increase is driven by expenditures related to the OnTouch™ merchandising service and additional headcount in sales support functions in North America and AsiaPac.

General and administrative expenses for the three-month period ended August 31, 2010, increased to \$1,524,691 compared to \$1,045,239 for the same period in 2009. For the nine-month periods ended August 31, 2010 and 2009, these expenses were \$3,656,835 and \$2,828,618 respectively. Legal fees for the three-month period ended August 31, 2010 amounted to \$446,127 compared to \$186,548 for the same period in 2009, an increase of \$259,579. For the nine-month periods ended August 31, 2010 and 2009, legal fees were \$1,219,104 and \$773,720 respectively. Personnel costs totaled \$237,039 for the three-months ended August 31, 2010 compared to \$196,051 for the same period in 2009. For the nine-month periods ended August 31, 2010 and 2009, personnel costs were \$673,093 and \$442,622 respectively. Other professional, consulting and management fees were \$321,646 for the three-months ended August 31, 2010 compared to \$213,565 in 2009. For the nine-month periods ended August 31, 2010 and 2009, these amounts totaled \$792,100 and \$600,501 respectively. Premises and equipment lease costs for the three and nine-month periods ended August 31, 2010 were \$123,810 and \$303,492 respectively (2009 - \$93,789 and \$274,400).

Our investment in OnTouch™ continued to grow during the third quarter of 2010. Total costs relating to the OnTouch™ merchandising service for the three and nine-month periods ended August 31, 2010 were \$595,939 and \$1,584,356 respectively, with personnel costs comprising 84% and 88% of the total expenses. During the three and nine month periods ended August 31, 2010, costs totaling \$221,979 and \$436,022 respectively were capitalized as deferred development costs, while the remaining \$373,960 and \$1,148,334 were expensed within the various expense categories.

Total Company headcount grew from 72 at the end of August 31, 2009 to 82 at the end of the third quarter 2010, up from 75 at the end of May 31, 2010. It is expected that headcount will grow during the last quarter of 2010 as the Company continues to expand its global footprint, the OnTouch™ merchandising service is rolled out to new and existing clients and we strengthen our support infrastructure.

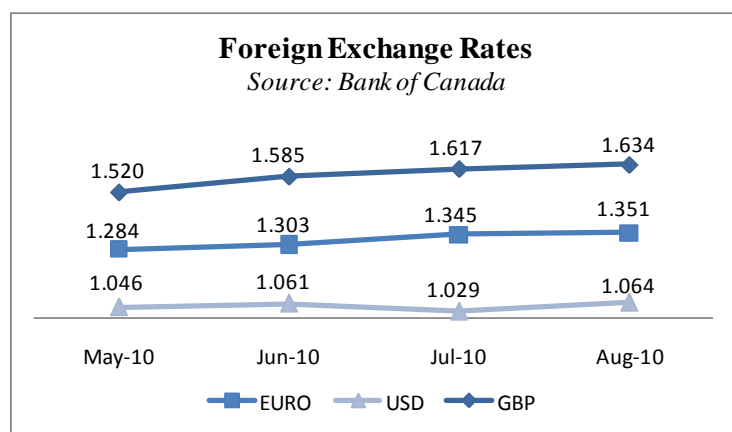
Stock-based compensation expense for the three-month period ended August 31, 2010 increased 19% to \$95,000, compared to \$80,000 for the same period in 2009. For the nine-month periods ended August 31, 2010 and 2009, expenses were \$289,580 and \$254,346 respectively. The increase is due to a higher average exercise price used in the Black-Scholes valuation for stock options granted in the nine-month period ended August 31, 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 August 31, 2010 was \$1,322,153, an increase of 26% compared to \$1,045,344 for the comparable period in 2009. For the nine-month periods ended August 31, 2010 and 2009 amortization of capital assets deployed were \$3,912,889 and \$2,714,113 respectively.

During the three-month period ended August 31, 2010, amortization of equipment totaled \$24,090, compared to \$28,277 for the same period in 2009. For the nine-month periods ended August 31, 2010 and 2009, amortization expenses were \$68,530 and \$62,159 respectively.

### Other Income/Expenses

The foreign exchange gain for the three-month period ended August 31, 2010 was \$170,299, compared to \$203,159 for the comparable period in 2009. For the nine-month periods ended August 31, 2010 and 2009, gains were \$22,956 and \$70,818 respectively. Gains were driven primarily by the relative strength of the Euro and Sterling during the last four 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 and nine-months ended August 31, 2010, the Company lost approximately \$350,000 and \$839,000 respectively in revenues due to the decline in the U.S Dollar, Euro and Sterling from November 30, 2009. 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 August 31, 2010, interest income increased to \$6,428, compared to \$1,870 for the same period in 2009. For the nine-month periods ended August 31, 2010 and 2009, interest income was \$19,274 and \$20,156 respectively.

For the three-month period ended August 31, 2010, interest expense decreased to \$105,883, compared to \$126,366 for the comparable period in 2009. For the nine-month periods

ended August 31, 2010 and 2009, interest expense was \$366,411 and \$406,634 respectively. The decrease in interest expense is due to a decrease in deployments financed through capital leases and repayments of outstanding obligations.

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 fees on the term loan of \$88,453 during the three-months ended August 31, 2010 (2009 - \$69,583), and \$284,849 for the nine-months ended August 31, 2010 (2009 - \$69,583).

## **LIQUIDITY AND CAPITAL RESOURCES**

As at August 31, 2010 and November 30, 2009, GuestLogix had cash and cash equivalents totaling \$8,777,220 and \$9,435,680 respectively. Including restricted cash and cash equivalents the amounts were \$11,436,970 and \$12,129,181.

In the three-month period ended August 31, 2010, cash generated by operating activities was \$866,812, compared to \$2,673,297 for the same period in 2009. Cash generated by operating activities in the third quarter of 2010 was primarily the result of positive operating income reduced by increases in accounts receivable and accrued liabilities, offset by decreases of inventory and prepaid expenses, and increases relating to accounts payable and add-backs of non-cash expenses including amortization of capital assets deployed, amortization of deferred cost of equipment sales, unrealized exchange difference, stock-based compensation expense and deferred revenue. For the nine-month period ended August 31, 2010, cash generated by operating activities was \$3,886,540, compared to \$2,513,325 for the same period in 2009. Cash generated by operating activities for the nine-months ended August 31, 2010 was primarily the result of positive operating income reduced by increases in accounts receivable and prepaid expenses and decreases of accounts payable and accrued liabilities and inventory, and increases relating to add-backs of non-cash expenses including amortization of capital assets deployed, amortization of deferred cost of equipment sales, unrealized exchange difference, stock-based compensation expense and deferred revenue.

In the three-month period ended August 31, 2010, cash used in investing activities was \$1,111,851, compared to \$2,020,722 for the same period in 2009. For the nine-month period ended August 31, 2010, cash used in investing activities was \$2,429,857, compared to \$1,887,492 for the same period in 2009. Cash used in investing activities for both the three and the nine-month periods ended August 31, 2010 was primarily the result of purchases of capital assets for deployment, additions to equipment and development costs incurred.

In the three-month period ended August 31, 2010, cash used in financing activities was \$963,418 compared to cash generated by financing activities of \$513,202 for the comparable period in 2009. For the nine-month periods ended August 31, 2010 and August 31, 2009, cash used in financing activities was \$2,115,143 and \$820,349 respectively. Cash used in financing activities for both the three and the nine-month periods ended August 31, 2010 was primarily the result of proceeds from a capital lease sale and leaseback and proceeds from the exercise of options and warrants, offset by repayments of the principal on outstanding 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 August 31, 2010 as prepared in accordance with GAAP. The information has been derived from our unaudited consolidated 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>	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	\$6,803	\$6,437	\$6,021	\$5,190	\$4,808	\$4,555	\$4,001	\$2,826
Net Income (Loss)	\$139	\$53	\$253	\$208	\$238	\$33	\$(252)	\$(1,961)
Basic and Diluted Income (Loss) per Share	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$(0.00)	\$(0.03)

## COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The Company is committed under the terms of an operating lease for its premises ending on April 30, 2015. The Company is also committed to future minimum lease payments for both operating and capital leases on computer equipment, and capital leases on its hand-held point-of-sale devices.

	Total	2010	2011	2012	2013 and Beyond
Lease obligations					
Capital leases	\$4,798,294	\$ 890,793	\$2,618,282	\$ 1,208,217	\$ 81,002
Operating leases	594,984	59,002	233,212	208,557	94,213
Total contractual obligations	\$5,393,278	\$ 949,795	\$2,851,494	\$ 1,416,774	\$ 175,215

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 through the remainder of 2010 and will evaluate the necessity of further debt financing to support its 2011 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 August 31, 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 hand-held devices which are deployed to the customer locations. During the three and nine-months ended August 31, 2010, \$5,201,604 and \$14,760,261 of the Company's revenue (2009 - \$3,674,842 and \$10,603,860) was derived from North America, while the remainder of \$1,601,891 and \$4,500,619 (2009 - \$1,133,319 and \$2,760,742) was derived primarily from Europe, the Middle East and Asia Pacific.

During the three and nine-months ended August 31, 2010, the five top customers accounted for 60% and 61% of the total revenue respectively (2009 – 63% and 74%).

## OUTSTANDING SHARE DATA

As at August 31, 2010, GuestLogix had issued and outstanding 63,968,767 common shares, 5,208,649 stock options with exercise prices ranging from \$0.07 to \$1.80 per share, and 1,708,127 share purchase warrants with exercise prices ranging from U.S. \$0.726 to \$1.20 per share.

## 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 August 31, 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 August 31, 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.

There have been no substantial 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 (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 current 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).

The Company is currently in the design and planning, and solution development stage of its conversion and has recently completed accounting policy memorandums on key differences which have been reviewed by third-party experts. The Company is currently in the process of quantifying 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.

### **Research and development expenses**

Research costs are expensed as incurred. Research and development costs are recorded net of investment tax credits, where applicable. 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. The Company capitalizes development costs incurred subsequent to establishing technological feasibility to the extent that their recovery can reasonably be regarded as assured. Amortization of development costs commences with commercial production or use of the product or process.

### **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. 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:

	August 31, 2010	November 30, 2009
Cash	\$ 3,516,974	\$ 3,135,679
Short-term deposits	5,260,246	6,300,001
	<u>\$ 8,777,220</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 the period end, the top 5 accounts receivable balances comprised approximately 79% (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. The Company establishes an allowance for doubtful accounts that corresponds to the specific credit risk of its customers, historical trends, and economic circumstances. The allowance as at August 31, 2010 was \$150,000 (November 30, 2009 - \$NIL).

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

As at August 31, 2010:

Current	31 - 60 days	61-90 days	91 days +	Carrying value
\$ 2,461,829	\$ 685,098	\$1,365,049	\$ 396,041	\$ 4,908,017

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

### 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 nine-months ended August 31, 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 income</b>
	\$
Change of +/- 1% in rate of prime	-/+ 5,500

### 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 income</b>
	\$
Change of +/- 10% in US \$ foreign exchange rate	+/- 111,400
Change of +/- 10% in Euro € foreign exchange rate	+/- 118,900
Change of +/- 10% in GBP £ foreign exchange rate	+/- 8,500

The 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, accounts payable and accrued liabilities, capital lease obligations and GBP £ and Euro € denominated cash and cash equivalents, accounts receivables and accounts payable and accrued liabilities.

#### *Limitations of sensitivity analysis*

The above table demonstrates the effect of changes 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.

Although global travel demand has begun to strengthen, 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 2011 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 during periods of high jet fuel prices. The airline sector, particularly in North America and Europe are emerging from a background of significant financial weakness. This may lead to GuestLogix having 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 significant 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, as the industry moves towards more of a passenger self-service model, our software solutions are fully capable of supporting this shift. 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' solutions due to the added weight, cost of retro-fitting and the age of aircraft in their fleet. In addition, 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 and in fact can enable onboard sales in both online and offline environments.

Other risks faced by GuestLogix are related to the segment of the passenger travel industry in which it operates. Low cost airline carriers are being challenged by inter-city rail carriers, particularly in Europe. To mitigate this particular risk, a focus for 2011 is to penetrate the passenger rail travel industry in Europe and expand our airline footprint in the Asia Pacific and Latin American regions.

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.