

Consolidated Financial Statements of

**GUESTLOGIX INC.**

Three and six months ended May 31, 2008 and 2007

**(unaudited)**

## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**GUESTLOGIX INC.**  
**Consolidated Balance Sheets**

**(UNAUDITED)**

	May 31, 2008	November 30, 2007
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$ 4,829,860	\$ 5,989,024
Accounts receivable	761,616	668,187
Prepaid expenses and other assets	470,520	113,470
Supplier development loan	297,900	-
Investment tax credits receivable (note 2)	275,320	326,667
Current portion of net finance receivable (note 4)	1,106,083	1,743,890
	<u>7,741,299</u>	<u>8,841,238</u>
Restricted cash (note 3)	1,493,413	1,025,390
Net finance receivables (note 4)	2,400,439	1,278,621
Capital assets deployed (note 4)	3,575,566	3,058,770
Property and equipment (note 5)	55,494	56,217
	<u>15,266,211</u>	<u>14,260,236</u>
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	2,007,644	2,065,176
Current portion of obligations under capital lease (note 7)	460,830	1,038,265
Notes payable (note 9)	99,300	100,000
Convertible loans from shareholders (note 6)	571,759	366,872
Loans from shareholders	-	20,461
Deferred revenue (note 8)	1,149,555	1,808,257
	<u>4,289,088</u>	<u>5,399,031</u>
Deferred revenue (note 8)	2,551,189	1,390,343
Obligations under capital lease (note 7)	2,546,046	723,261
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 10(b))	13,055,873	12,084,398
Contributed surplus	929,540	802,372
Conversion rights	1,619,415	1,619,415
Warrants (note 10 (d))	839,431	1,146,855
Share issuance costs (note 10(b))	(2,498,426)	(2,498,426)
Deficit	(8,065,945)	(6,407,013)
	<u>5,879,888</u>	<u>6,747,601</u>
Guarantees (note 14)		
Commitments (note 16)		
Contingencies (note 18)		
Subsequent events (note 19)		
	<u>15,266,211</u>	<u>14,260,236</u>

(The accompanying notes are an integral part of these financial statements)

**GUESTLOGIX INC.**  
**Consolidated Statements of Operations and Deficit**

	Three months ended May 31,		Six months ended May 31,	
	2008	2007	2008	2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>REVENUE</b>	\$ 1,826,710	\$ 1,725,122	\$ 3,230,567	\$ 2,396,574
<b>OPERATING EXPENSES</b>				
Cost of equipment sales	218,508	617,920	362,367	617,920
Research and development	92,572	179,669	171,365	334,629
Sales and marketing	299,176	186,908	585,550	325,950
General and administrative	1,458,694	391,843	2,292,065	571,946
Stock-based compensation	94,731	748	147,417	9,615
Amortization of capital assets deployed	557,318	319,877	1,031,052	626,767
Amortization of property and equipment	2,925	3,502	5,850	3,502
	2,723,924	1,700,467	4,595,666	2,490,329
<b>INCOME (LOSS) FROM OPERATIONS</b>	(897,214)	24,655	(1,365,099)	(93,755)
Other income (expenses):				
Other income	-	-	-	15,544
Foreign exchange gain (loss)	(88,317)	64,255	(66,062)	12,209
Interest earned	29,158	16,540	93,503	30,541
Interest expense	(70,088)	(146,198)	(136,848)	(268,929)
Interest accretion expense	(91,567)	(636,675)	(184,426)	(1,186,701)
	(220,814)	(702,078)	(293,833)	(1,397,336)
<b>NET LOSS FOR THE PERIOD AND COMPREHENSIVE INCOME</b>	(1,118,028)	(677,423)	(1,658,932)	(1,491,091)
<b>DEFICIT, BEGINNING OF PERIOD AS ORIGINALLY STATED</b>	(6,947,917)	(3,500,198)	(6,407,013)	(3,194,344)
<b>IMPACT OF CHANGE IN ACCOUNTING FOR FINANCIAL INSTRUMENTS</b>				507,814
<b>AS RESTATED</b>	(6,947,917)	(3,500,198)	(6,407,013)	(2,686,530)
<b>DEFICIT, END OF PERIOD</b>	(8,065,945)	(4,177,621)	(8,065,945)	(4,177,621)
<b>LOSS PER SHARE (note 11)</b>	(0.02)	(0.02)	(0.03)	(0.05)
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES</b>	49,245,466	27,668,752	48,651,969	27,668,752

(The accompanying notes are an integral part of these financial statements)

**GUESTLOGIX INC.**  
**Statement of Shareholders' Equity**

**GUESTLOGIX INC.**  
**Consolidated Statements of Shareholders' Equity**

For the period ended May 31, 2008

	Number of Shares	Share Capital	Shares to be issued	Contributed Surplus	Conversion rights	Warrants	Share issuance costs	Deficit	Shareholders' equity
Balance, November 30, 2006	27,668,752	\$ 860,753	\$ 470,746	\$ 588,902	\$ 772,701	\$ 738,659	\$ -	\$ (3,194,344)	\$ 237,417
Shares to be issued, private placement	-	-	110,000	-	-	-	-	-	110,000
Stock based compensation expense	-	-	-	8,867	-	-	-	-	8,867
Net loss for the period	-	-	-	-	-	-	-	(305,854)	(305,854)
Balance, February 28, 2007	27,668,752	860,753	580,746	597,769	772,701	738,659	-	(3,500,198)	50,430
Shares to be issued, private placement	-	-	1,350,006	-	-	-	-	-	1,350,006
Stock based compensation expense	-	-	-	(7,370)	-	-	-	-	(7,370)
Issuance of warrants	-	-	-	-	-	8,119	-	-	8,119
Net loss for the period	-	-	-	-	-	-	-	(677,423)	(677,423)
Balance, May 31, 2007	27,668,752	860,753	1,930,752	590,399	772,701	746,778	-	(4,177,621)	723,762
Balance, November 30, 2007	47,857,999	\$ 12,084,398	\$ -	\$ 802,372	\$ 1,619,415	\$ 1,146,855	\$ (2,498,426)	\$ (6,407,013)	\$ 6,747,601
Stock based compensation expense				\$ 52,686					\$ 52,686
Share purchase warrants exercised	143,250	\$ 43,599				\$ (14,949)			\$ 28,650
Share purchase options exercised	50,721	\$ 42,781		\$ (7,277)					\$ 35,504
Net loss for the period								\$ (540,904)	\$ (540,904)
Balance, February 29, 2008	48,051,970	\$ 12,170,778	\$ -	\$ 847,781	\$ 1,619,415	\$ 1,131,906	\$ (2,498,426)	\$ (6,947,917)	\$ 6,323,537
Stock based compensation expense				\$ 94,731					\$ 94,731
Share purchase warrants exercised	2,812,262	\$ 854,927				\$ (292,475)			\$ 562,452
Share purchase options exercised	99,971	\$ 30,168		\$ (12,972)					\$ 17,196
Net loss for the period								\$ (1,118,028)	\$ (1,118,028)
Balance, May 31, 2008	50,964,203	\$ 13,055,873	\$ -	\$ 929,540	\$ 1,619,415	\$ 839,431	\$ (2,498,426)	\$ (8,065,945)	\$ 5,879,888

(The accompanying notes are an integral part of these financial statements)

**GUESTLOGIX INC.**  
**Statements of Cash Flows**

	Three months ended May 31,		Six months ended May 31,	
	2008	2007	2008	2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>CASH PROVIDED BY (USED IN)</b>				
<b>OPERATING ACTIVITIES</b>				
Net Loss for the period	\$ (1,118,028)	\$ (677,423)	\$ (1,658,932)	\$ (1,491,091)
Items not involving cash:				
Amortization of capital assets deployed	557,318	319,877	1,031,052	626,767
Amortization of capital assets	2,925	3,502	5,850	3,502
Interest accretion on notes payable (note 6)	91,567	636,675	184,426	1,186,701
Stock-based compensation expense	94,731	748	147,417	9,615
<b>Change in non-cash operating working capital</b>	<b>(494,168)</b>	<b>(727,387)</b>	<b>(1,454,899)</b>	<b>(1,099,439)</b>
	(865,655)	(444,008)	(1,745,086)	(763,945)
<b>FINANCING</b>				
Proceeds from capital lease sale and leaseback	1,822,785		418,709	
Proceeds from shares to be issued (note 10 (b))	-	1,350,006	-	1,460,006
Proceeds from exercise of options and warrants	579,648		643,802	
Repayment of capital leases	(309,352)	(169,955)	(577,435)	(372,972)
Repayment of notes payable	-	(106,990)	-	(259,146)
Repayment of loans from shareholder	-	-	(20,461)	-
	2,093,081	1,073,061	464,615	827,888
<b>INVESTING</b>				
Investment in collateral security	(600,000)	-	(482,642)	44,424
Investment in supplier development loan	-		(295,320)	
Purchase of equipment for deployment	(67,757)	-	(67,757)	(152,020)
Payments received on sales-type leases	560,488	367,229	1,037,392	739,974
Additions to property and equipment	(5,126)	-	(5,126)	(35,016)
	(112,395)	367,229	186,547	597,362
<b>FOREIGN EXCHANGE GAIN (LOSS) ON CASH HELD IN FOREIGN CURRENCY</b>	<b>(63,116)</b>	<b>118,446</b>	<b>(65,240)</b>	<b>262,197</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,051,915</b>	<b>1,114,728</b>	<b>(1,159,164)</b>	<b>923,502</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>3,777,945</b>	<b>15,846</b>	<b>5,989,024</b>	<b>207,072</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 4,829,860</b>	<b>\$ 1,130,574</b>	<b>\$ 4,829,860</b>	<b>\$ 1,130,574</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>				
Interest paid	\$ 69,867	\$ 52,787	\$ 136,627	\$ 103,643
Interest received	29,158	16,450	93,503	30,541
<b>SUPPLEMENTAL DISCLOSURES RELATING TO NON-CASH OPERATING AND INVESTING ACTIVITIES</b>				
Additions to capital lease obligations to finance the acquisition of capital assets deployed	-	-	-	-
Purchase of equipment for deployment in accounts payable	\$ 244,849	\$ -	\$ 244,849	\$ -
<b>SUPPLEMENTAL DISCLOSURES RELATING TO CASH AND CASH EQUIVALENTS</b>				
CASH	\$ 888,986	\$ 130,574	\$ 888,986	\$ 130,574
SHORT TERM INVESTMENTS UP TO 90 DAYS	3,940,874	1,000,000	3,940,874	1,000,000

(The accompanying notes are an integral part of these financial statements)

# **GUESTLOGIX INC.**

Notes to Consolidated Financial Statements

Three and six months ended May 31, 2008 and 2007  
(unaudited)

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## **DESCRIPTION OF BUSINESS**

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

## **REVERSE TAKEOVER**

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

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

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

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

# GUESTLOGIX INC.

Notes to Consolidated Financial Statements (continued)

Three and six months ended May 31, 2008 and 2007  
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Asset	
Cash	\$100,046
Less: liabilities assumed	-
Total consideration attributable to Growthgen	\$100,046
Represented by 1,666,667 Growthgen shares	\$100,046

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## 1. Significant accounting policies:

The interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ('GAAP'). Certain information and note disclosures normally included in the annual consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles have been condensed to include only the notes related to the elements which have significantly changed in the interim period. As a result, these interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the fiscal year ended November 30, 2007. The unaudited consolidated interim financial statements, in the opinion of management, contain all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly the financial information for such unaudited interim periods. The accounting policies applied thereon are consistent with those described below and in the Company's audited consolidated financial statements for the fiscal year ended November 30, 2007. The results of operations for the three and six months ended May 31, 2008 are not necessarily indicative of the results to be expected for the full year.

### (a) Revenue recognition:

The Company's largest source of revenue derives from arrangements with multiple deliverables. When a customer order contains multiple items such as hardware, software, hosting and services, which are delivered at varying times, the Company determines whether the delivered items can be considered separate units of accounting in accordance with Emerging Issues Committee Abstract 142, Revenue Arrangements with Multiple Deliverables ('EIC 142'). EIC 142 states that delivered items should be considered separate units of accounting 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.

# GUESTLOGIX INC.

Notes to Consolidated Financial Statements (continued)

Three and six months ended May 31, 2008 and 2007  
(unaudited)

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## 1. Significant accounting policies (continued):

### (a) Revenue recognition (continued):

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

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

To account for revenues and related expenses under these arrangements, the Company employs sales-type lease accounting as follows. The Company sells products to certain customers under terms that approximate sales-type lease arrangements, with GuestLogix as the lessor, for terms that range from two to five years. GuestLogix accounts for revenue under its sales-type leases in accordance with CICA Handbook section 3065, *Leases*, and recognizes current and long-term lease receivables on the accompanying 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 is 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 INC.

Notes to Consolidated Financial Statements (continued)

Three and six months ended May 31, 2008 and 2007  
(unaudited)

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## 1. Significant accounting policies (continued):

### (a) Revenue recognition (continued):

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 as 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 collectibility is not deemed probable, revenue is recognized when payments come due or upon the receipt of cash, depending on the circumstances and assuming all other criteria have been met.

### (b) Research and development expenses:

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

### (c) Investment tax credits:

The Company is entitled to federal and provincial investment tax credits, which are earned as a percentage of eligible research and development expenditures incurred in each taxation year. The Company, while it was a Canadian Controlled Private Corporation, recorded the benefit of refundable investment tax credits when the qualifying expenditures

# GUESTLOGIX INC.

Notes to Consolidated Financial Statements (continued)

Three and six months ended May 31, 2008 and 2007  
(unaudited)

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## 1. Significant accounting policies (continued):

### (c) Investment tax credits (continued):

had been incurred and there was reasonable assurance as to their collection. Investment tax credits are recorded as a reduction of the related expenditure for items of a current nature and a reduction of the related capital asset for items of a long-term nature. Upon the amalgamation of Growthgen and GuestLogix on August 1, 2007, the Company is no longer entitled to claim refundable investment tax credits against its future eligible research and development expenditures. These amounts are available to reduce taxes payable in future periods. The claims are subject to review by the Canada revenue Agency ('CRA').

### (d) Property and equipment:

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

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Office furniture and fixtures	5 years
Computer equipment	3 years

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### (e) Capital assets deployed:

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

### (f) Impairment of long-lived assets:

The useful lives and the carrying values of long-lived assets are periodically reviewed for continued appropriateness. Impairment of long-lived assets is reviewed whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. If the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of an asset is less than its carrying value, the asset is considered to be impaired. An impairment loss is measured as the excess of the carrying value of the asset over its fair value. As at May 31, 2008 the Company has not recorded an impairment loss.

# GUESTLOGIX INC.

Notes to Consolidated Financial Statements (continued)

Three and six months ended May 31, 2008 and 2007  
(unaudited)

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## 1. Significant accounting policies (continued):

### (g) Foreign currency translation:

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

### (h) Income taxes:

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

### (i) Stock-based compensation:

Effective December 1, 2005, the Company adopted the recommendations of CICA Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments, which resulted in the fair value method of accounting being used for all stock-based compensation. The Company grants stock options to directors, officers, employees and consultants of the Company pursuant to the stock option plan described in note 10(c). Compensation expense is recognized for stock options based on the fair value of the options at the grant date. Currently the fair value of the options is recognized over the vesting period of the options as stock based compensation expense as a separate line item on the consolidated statement of operations. 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 rates. The Company has assumed no forfeiture rate as adjustments for actual forfeitures are made in the year they occur.

# GUESTLOGIX INC.

Notes to Consolidated Financial Statements (continued)

Three and six months ended May 31, 2008 and 2007  
(unaudited)

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## 1. Significant accounting policies (continued):

### (i) Stock-based compensation (continued):

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

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

### (j) Deferred revenue:

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

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

### (k) Leases

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

### (l) Share issuance costs

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

# GUESTLOGIX INC.

Notes to Consolidated Financial Statements (continued)

Three and six months ended May 31, 2008 and 2007  
(unaudited)

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## 1. Significant accounting policies (continued):

### (m) Interest accretion expense

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

### (n) Loss per share:

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

### (o) Use of estimates:

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

### (p) Cash and Cash Equivalents

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

### (q) Recently adopted pronouncements

#### (i) Financial instruments:

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

# GUESTLOGIX INC.

Notes to Consolidated Financial Statements (continued)

Three and six months ended May 31, 2008 and 2007  
(unaudited)

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## 1. Significant accounting policies (continued):

### (q) Recently adopted pronouncements (continued)

#### (i) Financial instruments (continued):

Section 1530 establishes standards for reporting and presenting comprehensive income, which is the change in equity from transactions and other events during a period from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with GAAP. The adoption of Section 1530 did not have a material effect on the Company's consolidated financial position and results of operations for the fiscal year end November 30, 2007 and the six-month period ended May 31, 2008.

Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives, and specifies the information that should be disclosed about them. Section 3865 describes when and how hedge accounting can be applied as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenues and expenses from derivative financial instruments in the same periods as those related to the hedged items. The adoption of Section 1530 did not have a material effect on the Company's consolidated financial position and results of operations for the fiscal year end November 30, 2007 and the six-month period ended May 31, 2008.

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

# GUESTLOGIX INC.

Notes to Consolidated Financial Statements (continued)

Three and six months ended May 31, 2008 and 2007  
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## 1. Significant accounting policies (continued):

### (q) Recently adopted pronouncements (continued):

#### (i) Financial instruments (continued):

measured at fair value. Accounts receivable and net finance receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, obligations under capital lease, notes payable, loans from shareholders, and convertible debentures are classified as other financial liabilities, which are measured at amortized cost.

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

#### (ii) Non-monetary transactions:

Effective January 1, 2006, the Company adopted CICA Handbook Section 3831, *Non-monetary Transactions*. This standard requires all non-monetary transactions to be measured at fair value unless they meet one of four very specific criteria. Commercial substance replaces culmination of the earnings process as the test for fair value measurement. A transaction has commercial substance if it causes an identifiable and measurable change in the economic circumstances of the entity. Commercial substance is a function of the cash flows expected by the reporting entity. The adoption of this standard did not have a material impact on the Company's consolidated financial position and results of operations at November 30, 2007 or the six-month period ended May 31, 2008.

#### (iii) Cash flow statements

In March 2007, the CICA amended Handbook Section 1540, *Cash Flow Statements* ("Section 1540"). Paragraph 1540.55 was amended such that cash distributions on financial instruments classified as equity, and where the distributions are determined in accordance with a contractual agreement or relevant constating documents, now require disclosure of the extent to which distributions are non-discretionary. The adoption of this amended standard did not have a material impact on the Company's consolidated financial position and results of operations at November 30, 2007 or the six-month period ended May 31, 2008.

# GUESTLOGIX INC.

Notes to Consolidated Financial Statements (continued)

Three and six months ended May 31, 2008 and 2007  
(unaudited)

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## 1. Significant accounting policies (continued):

### (q) Recently adopted pronouncements (continued):

#### (iv) General standards of financial statement presentation

In June 2007, the CICA added paragraphs to Handbook Section 1400, *General Standards of Financial Statement Presentation* ('Section 1400') to include new requirements regarding an entity's ability to continue as a going concern. The additions to Section 1400 apply to interim and annual financial statements relating to the fiscal year beginning on or after January 1, 2008. Earlier adoption is encouraged. The adoption of this amended standard did not have a material impact on the Company's consolidated financial position and results of operations at November 30, 2007 or the six-month period ended May 31, 2008.

#### (v) Inventories

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

#### (vi) Financial instruments – disclosures and presentation:

In December 2006, the CICA issued Handbook Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*. These two new sections replace Section 3861, *Financial Instruments – Disclosure and Presentation*, which was adopted by the Company in fiscal 2007. Section 3862 includes a complete set of disclosure requirements for financial instruments that revise and enhance the disclosure requirements in Section 3861. Section 3863 contains the standards for presentation of financial instruments and non-financial derivatives and is essentially consistent with the presentation requirements currently found in Section 3861. These two new sections apply to interim and annual financial statements relating to fiscal

# GUESTLOGIX INC.

Notes to Consolidated Financial Statements (continued)

Three and six months ended May 31, 2008 and 2007  
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## 1. Significant accounting policies (continued):

### (q) Recently adopted pronouncements (continued):

#### (vi) Financial instruments – disclosures and presentation (continued):

years beginning on or after October 1, 2007. The adoption of these standards did not have a material effect on the Company's consolidated financial position or results of operations for the six-month period ended May 31, 2008.

#### (vii) Capital disclosures:

In December 2006, the CICA issued Handbook Section 1535, *Capital Disclosures*. This new guidance establishes standards for disclosing information about an entity's capital and how it is managed. This section requires the disclosure of an entity's objectives, policies and processes for managing capital and information regarding an entity's compliance or non-compliance with any capital requirements. Section 1535 applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. This standard affects disclosure only. See note 20.

#### (viii) Goodwill and intangible assets:

In January 2008, the CICA issued Handbook section 3064, *Goodwill and Intangible Assets*, which will replace Section 3062, *Goodwill and Other Intangible Assets*. The standard provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition as well as clarifying the application of the concept of matching revenues and expenses, whether these assets are separately acquired or internally developed. This standard will apply to the Company's interim and annual financial statements beginning December 1, 2008. The Company has not yet determined what the impact of adopting this standard will have on the Company's consolidated financial statements.

# GUESTLOGIX INC.

Notes to Consolidated Financial Statements (continued)

Three and six months ended May 31, 2008 and 2007  
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## 2. Investment tax credits:

At November 30, 2007, the Company has a balance of \$326,667 (2006 - \$160,000) of investment tax credits receivable, which has been recorded as a reduction of research and development expenses related to projects commenced in the preceding year. The Company also incurred estimated eligible expenditures during the three and six months ended May 31, 2008 of \$125,000 and \$231,000 respectively.

## 3. Restricted cash:

As at November 30, 2007, the Company had restricted cash of \$1,025,390 (2006 - \$1,253,651), as required to provide collateral security against capital leases. As at May 31, 2008, the Company had restricted cash of \$1,493,413. To fulfill this obligation, the Company has purchased short-term U.S. dollar-denominated investments. These investments have been carried at cost at November 30, 2007 and May 31, 2008 due to their short-term nature. Upon adoption of Section 3855, the Company has designated these amounts as held-for-trading, which requires the investments be marked to market and the changes in fair value be recorded in the statements of operations. As at May 31, 2008, the fair market value of these investments was \$1,493,413.

## 4. Net finance receivables and other long-term assets:

Amounts owing under sales-type leases entered into through the Company's multiple element arrangements are recorded as net finance receivables. Future minimum payments owing under these multiple element arrangements are as follows:

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2008	\$1,311,014
2009	1,593,260
2010	922,967

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

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

# GUESTLOGIX INC.

Notes to Consolidated Financial Statements (continued)

Three and six months ended May 31, 2008 and 2007  
(unaudited)

## 5. Property and equipment:

November 30, 2007	Cost	Accumulated depreciation	Net book value
Computer equipment	\$ 54,456	\$ 54,456	\$ —
Furniture and fixtures	\$ 65,569	\$ 9,352	\$ 56,217
Total property and equipment	\$ 120,025	\$ 63,808	\$ 56,217

May 31, 2008	Cost	Accumulated depreciation	Net book value
Computer equipment	\$ 59,582	\$ 54,456	\$ 5,126
Furniture and fixtures	\$ 65,569	\$ 15,201	\$ 50,368
Total property and equipment	\$ 125,151	\$ 69,657	\$ 55,494

Depreciation expense for the three and six months ended May 31, 2008 amounted to \$2,925 and \$5,850 respectively (2007 - \$3,502 and \$3,502).

## 6. Loans from shareholders:

### *Convertible shareholder loans:*

As at November 30, 2007, convertible shareholder loans outstanding, net of allocations for the conversion features and warrants issued with these loans amounted to \$366,872. As at May 31, 2008 the amount outstanding amounted to \$571,759. The face value of convertible shareholder loans aggregate to \$576,693, are unsecured and bear interest at 14%, payable quarterly in arrears. The maturity date of these loans is June 30, 2008.

For the three and six months ended May 31, 2008 the Company recorded accretion expense of \$91,567 and \$184,426 respectively (2007 - \$636,675 and \$1,186,701).

# GUESTLOGIX INC.

Notes to Consolidated Financial Statements (continued)

Three and six months ended May 31, 2008 and 2007  
(unaudited)

## 7. Obligation under capital leases:

From time to time the Company purchases hand-held, point-of-sale devices which in turn are bundled with software, hosting and services and are leased to customers as described in note 1(a). These devices are then sold under sales-type lease arrangements to customers under a multiple element revenue arrangement, as described in note 1(a).

In the six-month period ended May 31, 2008 purchases totalled \$1,801,661, of which \$1,166,305 were financed by way of capital leases.

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

	May 31, 2008	November 30, 2007
	(Unaudited)	
2008	\$ 976,550	\$1,170,744
2009	1,377,674	584,675
2010	970,092	177,093
	3,324,316	1,932,512
Less amount representing interest (at 5.36% to 12.46%)	317,440	170,986
	3,006,876	1,761,526
Less current portion	1,112,772	1,038,265
	\$1,894,104	\$ 723,261

Interest expense related to this obligation for the year ended November 30, 2007 amounted to \$174,923 (2006 - \$35,387). Interest expense related to this obligation for the three and six months ended May 31, 2008 was \$49,738 and \$96,349 respectively (2007 \$50,856 - \$101,712).

## 8. Deferred revenue:

Deferred revenue reported at May 31, 2008 pertains primarily to lease obligations from six customers. Deferred revenue is recognized on a monthly basis over the terms of the corresponding lease agreements which range from two to five years as described in note 1(a).

# GUESTLOGIX INC.

Notes to Consolidated Financial Statements (continued)

Three and six months ended May 31, 2008 and 2007  
(unaudited)

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## 9. Notes payable:

On August 12, 2005 the Company purchased and cancelled the outstanding common shares of GuestLogix as part of a management buyout agreement in exchange for a non-interest bearing note payable comprising a fixed obligation of \$414,785 (U.S. \$350,000). The balance outstanding under this obligation as at November 30, 2007 was nil (2006 - \$325,639 (U.S. \$300,000)).

In addition, contingent consideration of up to \$200,000 is payable subject to the Company achieving certain conditions at August 12, 2008, or at anytime prior to that date if triggered by a liquidation event as defined in the agreement. Management determined that it was feasible that the conditions may be met, and as a result contingent consideration of \$99,300 (U.S. \$100,000) has been recognized as a liability in the accompanying consolidated financial statements.

## 10. Share capital:

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

(a) Authorized:

Unlimited number of voting common shares

# GUESTLOGIX INC.

Notes to Consolidated Financial Statements (continued)

Three and six months ended May 31, 2008 and 2007  
(unaudited)

## 10. Share capital (continued):

(b) Issued:

	Number of common shares	Amount
Balance, November 30, 2006	27,668,752	\$ 860,753
Issuance of shares for compensation (i)	79,194	\$ 55,346
Issuance of shares for cash consideration (ii)	12,857,200	9,000,040
Issuance of shares upon settlement of debt obligation (iii)	1,235,911	728,287
Issuance of shares upon going public transaction (iv)	1,666,667	100,046
Issuance of shares from 'shares to be issued' (v)	705,411	470,746
Issuance of shares for cash consideration (vi)	159,747	110,000
Issuance of shares on exercise of warrants (vii)	447,750	136,274
Issuance of shares on exercise of options (viii)	145,013	47,906
Issuance of shares upon debenture conversions (ix)	2,892,354	575,000
Balance, November 30, 2007	47,857,999	\$12,084,398
Issuance of shares on exercise of warrants (x)	143,250	43,599
Issuance of shares on exercise of options (xi)	50,721	42,781
Balance, February 29, 2008	48,051,970	12,170,778
Issuance of shares on exercise of warrants (xii)	2,812,262	854,927
Issuance of shares on exercise of options (xiii)	99,971	30,168
Balance, May 31, 2008	50,964,203	\$13,055,873

- (i) In August 2007, the Company issued 79,194 common shares having a value of \$55,436 to a service provider as compensation for services rendered related to a financing.
- (ii) In August 2007, the Company issued 12,857,200 common shares in conjunction with the completion of an equity financing for gross cash proceeds of \$9,000,040, which when netted out against share issuance costs totalling \$2,411,097, resulted in net proceeds allocable to share capital of \$6,588,943.
- (iii) In August 2007, the Company issued 1,235,911 common shares as consideration for the conversion of certain loans and accrued interest, which, when netted out against the fair value of warrants issued in conjunction with the conversion of the loans resulted in gross proceeds allocable to share capital of \$728,287 (\$696,304 net of \$31,983 of issuance costs).

# GUESTLOGIX INC.

Notes to Consolidated Financial Statements (continued)

Three and six months ended May 31, 2008 and 2007  
(unaudited)

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## 10. Share capital (continued):

### (b) Issued (continued):

- (iv) In August 2007, the Company issued 1,666,667 shares in GuestLogix Inc. to the former holders of Growthgen Equity II Inc. ('Growthgen') upon amalgamation of the two companies for \$100,046, being the net assets acquired at fair value of Growthgen on the date of the amalgamation.
- (v) In June 2007, the Company issued 705,411 shares based on net proceeds of \$470,746, cash, previously received, the value of which was recorded under 'shares to be issued' as at the Company's fiscal year end of November 30, 2006.
- (vi) In June 2007, the Company issued 159,747 shares based on net proceeds of \$110,000, cash, received in December 2006.
- (vii) In October 2007, the Company issued 447,750 common shares upon the exercise of warrants for total consideration of \$136,724, cash. The value previously attributed to the warrants, \$46,724, was reallocated to share capital at that time.
- (viii) In November 2007, the Company issued 145,013 common shares upon the exercise of options for total consideration of \$47,906, cash.
- (ix) In October and November, 2007 the Company issued 2,892,354 common shares as consideration for the conversion of certain convertible notes payable totalling \$575,000.
- (x) In February 2008, the Company issued 143,250 common shares upon the exercise of warrants for total consideration of \$28,650. The value previously attributed to the warrants, \$14,949, was reallocated to share capital at that time.
- (xi) In February 2008, the Company issued 50,721 common shares upon the exercise of options for total consideration of \$35,504. The value relating to these options previously attributed to contributed surplus, \$7,277, was reallocated to share capital at that time.
- (xii) In April 2008, the Company issued 2,812,262 common shares upon the exercise of warrants for total consideration of \$562,452. The value relating to these options previously attributed to contributed surplus, \$292,475, was reallocated to share capital at that time.
- (xiii) In March and April 2008, the Company issued 99,971 common shares upon the exercise of options for total consideration of \$17,196. The value relating to these options previously attributed to contributed surplus, \$12,972, was reallocated to share capital at that time.

# GUESTLOGIX INC.

Notes to Consolidated Financial Statements (continued)

Three and six months ended May 31, 2008 and 2007  
(unaudited)

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## 10. Share capital (continued):

### (c) Stock options:

The Company has established a stock option plan (the 'Plan') to encourage ownership of the Company's common shares by its key officers, directors, employees and selected consultants. The Plan, as restated, and approved by shareholders subsequent to the amalgamation with Growthgen, provides for an amount up to 15% of the outstanding common shares of the Company to be reserved for issuance. The number of shares reserved for issuance under the Plan at May 31, 2008 is 6,655,932 common shares with provision that the Board of Directors has the right from time to time, to increase such number subject to the approval of shareholders of the Company. Options under the Plan vest over various periods from the date of the granting of the option. All options granted under the Plan that have not been exercised within up to ten years of the grant will expire, subject to earlier termination if the optionee ceases to be an officer, director, employee or consultant of the Company.

The fair value of options granted was estimated on the date of the grant using the Black-Scholes option-pricing model, resulting in the weighted average fair value of options granted for the three and six month periods ended May 31, 2008 being \$0.421 - \$0.465 and \$0.442 - \$0.495 respectively, with the following assumptions:

	Three-months ended May 31, 2008	Six-months ended May 31, 2008
Risk-free rate of return	3.04-3.75%	3.04-4.64%
Expected volatility	68%-72.6%	68%-83.6%
Dividend yield	- %	- %
Weighted average expected life of the options	5 years	5 years

# GUESTLOGIX INC.

Notes to Consolidated Financial Statements (continued)

Three and six months ended May 31, 2008 and 2007  
(unaudited)

## 10. Share capital (continued):

### (c) Stock options (continued):

The following is a summary of the stock options granted as at May 31, 2008 and changes during the six-month period ended May 31, 2008.

	Number of Options Outstanding	Weighted Average Exercise Price
Outstanding, Nov 30, 2006	736,622	\$ 0.07
Transferred from Growthgen	266,667	0.30
Granted	1,864,983	0.64
Exercised	(145,013)	0.27
Cancelled	(133,895)	0.69
Outstanding, November 30, 2007	2,589,364	0.46
Granted during the period	1,033,949	1.22
Exercised	(150,692)	0.35
Cancelled	(6,879)	0.70
Outstanding, May 31, 2008	3,465,742	\$ 0.84
Exercisable at May 31, 2008	1,269,949	\$ 0.25

The weighted average life of options outstanding at May 31, 2008 is 3.91 years.

The Company recognized \$52,686 and \$94,731 of stock-based compensation expense for stock options issued to service providers and employees during the three and six months ended May 31, 2008 (2007 - \$748 and \$9,615).

# GUESTLOGIX INC.

Notes to Consolidated Financial Statements (continued)

Three and six months ended May 31, 2008 and 2007  
(unaudited)

## 10. Share capital (continued):

### (d) Warrants:

The warrants outstanding at May 31, 2008 and November 30, 2007 are as follows:

	<u>May 31, 2008</u>		<u>November 30, 2007</u>	
	<u>Number of Warrants</u>	<u>Amount</u>	<u>Number of Warrants</u>	<u>Amount</u>
Exercise price of \$0.199 (plus four warrants) expiring April 30, 2008 (i)	-	\$ -	11,822,047	\$ 308,872
Exercise price of U.S.\$0.32 expiring June 30, 2009 (ii)	980,468	237,806	980,468	237,806
Exercise price of U.S.\$0.726 expiring August 16, 2011 to October 1, 2011 (iii)	727,047	64,849	727,047	64,849
Exercise price of U.S.\$0.907 expiring August 16, 2011 to October 1, 2011 (iii)	540,480	80,408	540,480	80,408
Exercise price of U.S.\$0.57 expiring on January 31, 2009 (iv)	119,075	8,119	119,075	8,119
Exercise price of \$0.20 expiring on November 28, 2008 (v)	48,698	25,618	48,698	25,618
Exercise price of \$0.84 expiring on July 31, 2009(vi)	501,202	138,804	501,202	138,804
Exercise price of \$0.70 expiring on July 31, 2009 (vii)	900,004	282,379	900,004	282,379
	<u>3,816,974</u>	<u>\$837,983</u>	<u>15,639,021</u>	<u>\$ 1,146,855</u>

- (i) Warrants issued and outstanding in conjunction with shareholder convertible loans (note 6) and convertible debentures allow for the purchase of 2,812,262 common shares. The warrants expire on April 30, 2008 but were exercised prior to expiry, resulting in 2,812,262 common shares being issued for proceeds of \$562,452.
- (ii) Warrants issued and outstanding in conjunction with \$445,990 (U.S. \$400,000) in notes payable on June 20, 2006 totalled 980,468. These notes were converted into equity in August 2007 at the time of the equity and financing transaction. The warrants expire on June 30, 2009.

# GUESTLOGIX INC.

Notes to Consolidated Financial Statements (continued)

Three and six months ended May 31, 2008 and 2007  
(unaudited)

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## 10. Share capital (continued):

### (d) Warrants (continued):

- (iii) Warrants issued and outstanding in conjunction with an additional U.S. \$653,626 in convertible loans in 2006 totalled 1,267,527. The warrants have exercise prices of U.S. \$0.726 and U.S. \$0.907 per share and expire between August 16, 2011 and October 1, 2011.
- (iv) Warrants issued and outstanding in conjunction with services provided to the Company totalled 119,075 and have an exercise price of U.S. \$0.57 per share and expire on January 31, 2009.
- (v) Warrants issued and outstanding in conjunction with services provided to the Company totalled 48,698 and have an exercise prices of \$0.20 per share and expire on November 28, 2008.
- (vi) Warrants issued and outstanding in conjunction with capital raising services provided to the Company totalled 501,202 and have an exercise price of \$0.84 per share and expire on January 31, 2009.
- (vii) Warrants issued and outstanding in conjunction with capital raising services provided to the Company totalled 900,004 and have an exercise price of \$0.70 per share and expire on January 31, 2009.

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

# GUESTLOGIX INC.

Notes to Consolidated Financial Statements (continued)

Three and six months ended May 31, 2008 and 2007  
(unaudited)

## 11. Loss per share:

The reconciliation of the loss for the three- and six-month periods ended May 31, 2008 and May 31, 2007 and the weighted average number of common shares used to calculate the basic loss per share is as per the table below. The pro forma amounts are adjusted to retroactively reflect the 3.94-for-1 share exchange which occurred upon completion of the amalgamation of the Company with Growthgen on August 1, 2007.

	Three-months ended May 31		Six-months ended May 31	
	2008	2007	2008	2007
	(Unaudited)		Unaudited)	
Numerator:				
Loss for the period	\$(1,118,028)	\$(677,423)	\$(1,658,932)	\$(1,491,091)
Denominator:				
Weighted average number of shares				
Basic:	49,245,446	27,668,752	48,651,969	27,668,752
Loss per share:				
Basic:	\$ (0.02)	\$ (0.02)	\$ (0.03)	\$ (0.05)

Fully diluted earnings per share has not been presented as the effect would be anti-dilutive.

## 12. Change in non-cash operating working capital:

	Three-months ended May 31		Six-months ended May 31	
	2008	2007	2008	2007
Accounts receivable	\$ 122,243	\$ (299,724)	\$ (93,429)	\$ (452,854)
Inventory		(576,866)		(576,866)
Prepaid expenses and other assets	(315,504)	(329,627)	(357,050)	(353,857)
Investment tax credits receivable	(108,648)	(62,500)	51,347	(125,000)
Accounts payable and accrued liabilities	(339,629)	899,616	(57,532)	1,073,618
Deferred revenue	(531,888)	(358,286)	(998,235)	(664,030)
	<b>(494,168)</b>	<b>\$ (727,387)</b>	<b>\$ (1,454,899)</b>	<b>\$ (1,099,439)</b>

# GUESTLOGIX INC.

Notes to Consolidated Financial Statements (continued)

Three and six months ended May 31, 2008 and 2007  
(unaudited)

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## 13. Financial instruments:

Financial instruments of GuestLogix consist of cash and cash equivalents, restricted cash, receivables, accounts payable and accrued liabilities, notes payable, convertible debentures and loans from shareholders. There are no significant differences between the carrying amounts of the items reported on the balance sheet and their estimated fair values.

GuestLogix may undertake sales and purchase transactions in foreign currencies, and therefore it is subject to gains or losses due to fluctuations in foreign currencies.

GuestLogix does not use derivative instruments to minimize its exposure to foreign currency risks.

GuestLogix is exposed to market risks relating to:

### *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 and Euros. Purchases of equipment required to deliver on GuestLogix' contracts are primarily transacted in U.S. Dollars. Other expenses, consisting of the majority of salaries and certain operating costs, are incurred primarily in Canadian Dollars other than fees paid to various sales agents which are transacted in U.S. Dollars and Sterling.

GuestLogix does not use derivative instruments to hedge against foreign exchange risk.

### *Interest rate*

Restricted cash is invested in certain instruments of varying maturities. Consequently, GuestLogix is exposed to interest rate risk as a result of holding investments of varying maturities. The fair value of investments, as well as the investment income derived from the investment portfolio, will fluctuate with changes in prevailing interest rates. GuestLogix does not use interest rate derivative financial instruments in its investment portfolio.

# GUESTLOGIX INC.

Notes to Consolidated Financial Statements (continued)

Three and six months ended May 31, 2008 and 2007  
(unaudited)

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## 13. Financial instruments (continued):

### *Credit and customer concentration*

GuestLogix is currently dependant on a limited number of large customers in Europe and the Americas. As GuestLogix expands its offering and increases distribution of its products, management anticipates the dependency on these customers to decrease.

## 14. Guarantees:

In the normal course of business, the Company enters into agreements that meet the definition of a guarantee.

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

# GUESTLOGIX INC.

Notes to Consolidated Financial Statements (continued)

Three and six months ended May 31, 2008 and 2007  
(unaudited)

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## 15. Related party transactions and balances:

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

Certain of the senior executives are compensated through management service agreements. These agreements entitle these individuals to a fixed monthly payment and reimbursement of reasonable out-of-pocket expenses. During the three and six months ended May 31, 2008 the Company incurred costs of \$97,500 and \$195,000 respectively (2007 - \$67,500 and \$135,000) relating to these agreements, which are included in general and administrative expenses. As at May 31, 2008, a total of \$nil (2007 - \$176,535) is unpaid and is included in accounts payable and accrued liabilities.

## 16. Commitments:

Future minimum lease payments under the premises and computer equipment operating leases for the following calendar years are as follows:

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	May 31, 2008
2008	\$ 155,692
2009	341,488
2010	327,380
2011	308,483
2012	279,547
Thereafter	127,068
	<hr/> \$1,539,658 <hr/>

# GUESTLOGIX INC.

Notes to Consolidated Financial Statements (continued)

Three and six months ended May 31, 2008 and 2007  
(unaudited)

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## 17. Segmented information and customer concentration:

### (a) Geographic information:

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 property and equipment are located in Canada. During the three and six months ended May 31, 2008 \$1,285,254 and \$2,286,277 respectively of the Company's revenue (2007 - \$1,521,175 and \$2,093,850) was derived from North America, while the remainder of \$541,456 and \$944,290 respectively (2007 - \$203,947 and \$302,724) was derived from Europe, Middle East and Africa.

### (b) Major customers:

During the three and six months ended May 31, 2008, four customers accounted for 79% of the total revenue (2007 – two customers accounted for 88%).

## 18. Contingencies:

### (a) See note 9.

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

## 19. Subsequent events:

The Company has arranged both loan and lease facilities totalling \$5,150,000 to support the deployment of new contracts that include point-of-sale hand held devices. These credit facilities are generally for a three year term and are at varying rates of interest from 8.25% to 11%.

# GUESTLOGIX INC.

Notes to Consolidated Financial Statements (continued)

Three and six months ended May 31, 2008 and 2007  
(unaudited)

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## 20. Capital disclosures:

The Company's objective in managing capital is to ensure a sufficient liquidity position to finance and secure its revenue growth and to finance its research and development activities, general and administration expenses, working capital and overall capital expenditures, especially expenditures on its capital assets deployed. The Company makes every attempt to manage its liquidity to minimize shareholder dilution when possible.

To finance its activities, the Company has followed an approach that relies on revenue growth, issuance of common equity, and financing under capital leases. Since inception, the Company has financed its activities primarily through public offerings of common shares, shareholder loans, and capital lease financing.

The Company's policy is to maintain a minimal level of debt for operating purposes.

The capital management objectives for the period ended May 31, 2008 remained the same as those of the previous fiscal year.

At May 31, 2008, cash amounted to \$4,829,860; accounts receivable amounted to \$761,616; net finance receivable amounted to \$3,506,522 on a discounted basis; and, investment tax credits receivable amounted to \$275,320. Reflecting the common stock issued in the first quarter of fiscal 2008 (note 10(b)), management believes that its cash position will be sufficient to fund operation and capital needs for at least one year.

The Company's policy on dividends is to retain cash to keep funds available to finance operations and growth. However, the Board of Directors may, from time to time, choose to declare a dividend in cash if warranted in the circumstances.

The Company is not subject to any capital requirements imposed by a regulator.