GuestLogix
POWERING ONBOARD RETAIL™

Q2

2011

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FOR THE THREE AND SIX-MONTH PERIODS ENDED MAY 31, 2011

Dated: July 14, 2011

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 six month periods ended May 31, 2011 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 July 14, 2011. 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*.

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 February 28, 2011. 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]

OUR VISION TO HELP REDEFINE AN INDUSTRY

As the leading transaction processor of onboard ancillary revenues to the travel industry, we will remain at the forefront of innovation and service excellence in order to achieve increased revenue growth and enhance the passenger experience for our global portfolio of clients. We will continue to penetrate new markets, open more access points, be present at more touch points and integrate new products and services in order to grow the number of transactions and Gross Transaction Value processed through our platform.

CORE BUSINESS

GuestLogix Inc. ('GuestLogix' or the 'Company') provides transaction processing services that enable passenger travel operators to seamlessly process ancillary revenues on a global basis, at all travel touch-points, in a fully secure and compliant manner. The Company helps operators create, manage and control their branded onboard stores, which are tailored to the needs of operators and to the needs of their passengers. GuestLogix enables access to operators' branded 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 to provide ready-made travel-relevant, destination-based offerings to passengers, while helping operators enhance the overall passenger travel experience. By linking travel operators, their passengers and global product and service providers, the Company has created the largest connected marketplace for ancillary revenues in the passenger travel industry.

Over nearly a decade, GuestLogix' core product has evolved from a cash management module into the travel industry's de facto onboard store technology platform and leading payment processing engine. The Company's evolution since 2002 has provided it extensive experience in developing retail technology solutions to a diverse set of global customers. As the principal provider to the airline industry GuestLogix has experienced rapid growth over the past number of years, in large part due to the need for ancillary revenue generation within the industry. As airlines began unbundling their onboard services and charging for food and beverage, passenger comfort items and other offerings, GuestLogix facilitated these new sales opportunities for many carriers. While helping to reshape the onboard service model and enable transaction processing onboard, GuestLogix played a fundamental role in securing its client's financial health. Many of the world's leading airline brands currently rely on GuestLogix to serve their passengers:

GUESTLOGIX CORE CUSTOMER BASE	
American Airlines	British Airways
Delta Air Lines	KLM Royal Dutch Airlines
United/Continental Airlines	Ryanair
US Airways	Qantas Airways
Southwest Airlines	WestJet

GuestLogix' core business model and solution offering is comprised of:

- Transaction Processing
- Onboard Store Technology
- Onboard Merchandising Solutions
- Advertising Access and Technology
- Data Analytics

Unique commercial model secures business sustainability

GuestLogix provides a no capital outlay model, reducing the financial impact of the initial implementation into each enterprise, yet enabling GuestLogix to have longer-term security in revenue performance. At the highest level, GuestLogix is able to implement its full solution into any travel operation with no upfront costs to the operator. Removing the requirement of high implementation costs, licensing fees or hardware purchases, GuestLogix in turn receives a transaction fee each time the travel operator uses the solution with an obligation to a contracted minimum amount of transactions. This enables GuestLogix to forecast a certain revenue guarantee to ensure sustainability. These agreements are contracted in a multi-year fashion.

The maturation of retail technology

Every retail model requires a full end-to-end solution in order to manage the operation effectively. GuestLogix' first generation retail platform met the requirements of its customers from a functional level. Asides from transaction processing, the solution also supported clients in managing products in the warehouse and inventory system, and managing settlement and reconciliation processes post-flight.

In 2009, GuestLogix went through a major rebranding and began a redevelopment of its first generation platform. The Company introduced OnTouch® which is a technology and merchandising platform that has been built to anticipate the future requirements of travel operators through a range of much more flexible and comprehensive functionality. As operators require a more sophisticated, scalable and broader solution, GuestLogix has reacted with a truly mobile platform that can extend to all areas of a travel operator's enterprise as well as deliver a greater experience to the end user.

One of the enhancements to the new platform is that operators will now be able to operate branded Onboard Stores which are defined by origin and destination. In previous onboard models, in-flight offerings have been nonspecific to the destination, with the exception perhaps of whether they were flying internationally or domestically. This created difficulty for operators to implement an enhanced merchandising strategy that could focus on the uniqueness of a specific travel journey.

Accelerating revenue growth through destination merchandising

GuestLogix recognized the requirement for more advanced merchandising strategies in the onboard environment and created its OnTouch® Merchandizing platform, which enables operators to populate their Onboard Stores with destination-specific offerings in the following categories:

- OnTouch® Ground Connections
- OnTouch® Box Office
- OnTouch® Shopping & More
- OnTouch® Minutes On The Go
- OnTouch® Concierge Everywhere
- OnTouch® Ads

These categories present significant revenue opportunities for both GuestLogix and its clients. GuestLogix has developed these '*shelves*' or categories within its platform which allows its clients to populate their Onboard Stores with any combination of offerings within these categories.

In order to expedite the integration of these types of offerings onboard, GuestLogix has formed its own portfolio of global vendors providing services in 200 cities around the world. This initiative represents significant revenue potential for GuestLogix through a revenue share agreement. Secondly if operators prefer to integrate service providers they have an existing relationship with, GuestLogix still stands to generate new revenue through the processing of each transaction onboard.

High-performance analytics providing an enhanced core solution and a new revenue opportunity

In 2010, GuestLogix commenced development work to augment its first generation Back Office solution by building the industry's first comprehensive analytics platform, OnTouch® Analytics. The platform enables sophisticated business intelligence capabilities to help onboard retailers maximize the utilization of new and existing information in order to effectively manage and control their Onboard Stores. After significant development efforts, OnTouch® Analytics now uses a leading-edge framework to deliver relevant, accurate and actionable information to any carrier who has implemented the new analytics platform.

Of eight proposed modules, the first has been successfully implemented into several carrier environments and will continue to be rolled out to GuestLogix' client base throughout 2011. The expected benefits include: (i) enhancement to core solution for increased customer satisfaction; (ii) greater visibility over retail operations to excel onboard performance; (iii) additional revenue stream to GuestLogix as additional modules are implemented.

While it acts as a complementary tool to the overall OnTouch® platform, GuestLogix is able to implement the OnTouch® Analytics platform into any carrier environment independent of their onboard retailing solution.

[OVERVIEW]

KEY ACCOMPLISHMENTS DURING THE QUARTER

- OnTouch® Analytics Sales Suite goes live with 4 North American Airline partners
- Recognized by Airlines and Rail Operators at Global AirRail Awards for "Innovation of the Year"
- Signed agreement with SuperShuttle to offer transportation service from 35 U.S. airports and three airports in France which expands our ability to integrate OnTouch® with more Airline partners
- Partnered with Pokeware™ to deliver a unique interactive advertising solution via in-flight entertainment systems

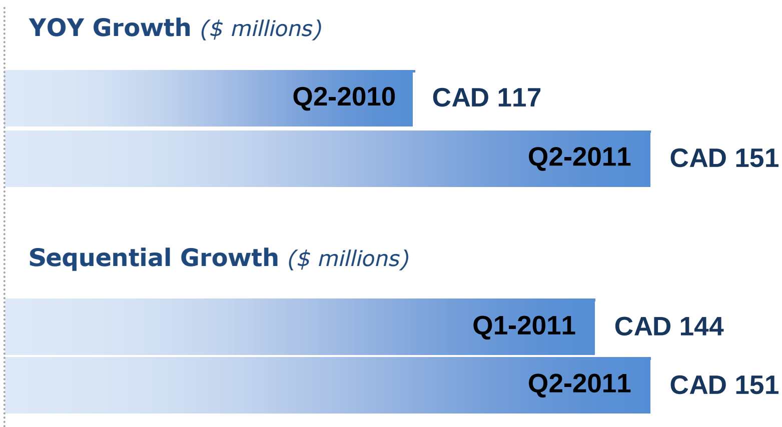
FINANCIAL HIGHLIGHTS FOR THE QUARTER

- Revenue was $6,110,805 for the three months ended May 31, 2011, compared to $6,436,850 for the three months ended May 31, 2010.
- EBITDA[1] was $1,397,766 for the three months ended May 31, 2011, compared to $1,691,315 for the three months ended May 31, 2010.
- EBITDA before stock based compensation expense was $1,520,766 for the three months ended May 31, 2011, compared to $1,780,895 for the three months ended May 31, 2010.
- Net profit was $189,309 for the three months ended May 31, 2011, compared to a net profit of $52,682 for the three months ended May 31, 2010.
- Cash and cash equivalents totaled $7,617,573 as at May 31, 2011, compared to $8,847,386 as at November 30, 2010.
- Cash and cash equivalents including restricted cash totaled $8,636,373 as at May 31, 2011, compared to $11,463,386 as at November 30, 2010.

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.*

GROSS TRANSACTION VALUE

Gross transaction value ('GTV') is the measure of the total amount of goods and services transacted by GuestLogix' clients through the GuestLogix platforms. Sequential growth in gross retail transaction revenue processed for the three months ended May 31, 2011 was 5% from $143,960,183 for the three months ended February 28, 2011 to $151,043,834. Year over year growth was 29% from $116,709,133 for the three months ended May 31, 2010 to $151,043,834 for the three months ended May 31, 2011.



[GROWTH STRATEGY AND FUTURE OUTLOOK]

With more than 1 billion annual passenger trips currently exposed to the GuestLogix platform, our strategy is to continue to drive an increase in the number and value of transactions processed through our OnTouch® technology platform. Through continuous efforts to grow our global footprint in the air and rail sector as well as assertively replicate our proven technology and business model into new travel verticals, our current strategy includes advancing our core platform to provide travel companies with new ways to engage travelers and ultimately generate new, high-margin and sustainable revenues. Having secured contracts with more than 90% of the North American market and 40% of the world's airline traffic, including 8 of the 10 largest airlines, our mission continues to be to strengthen the onboard experience as well as extend the retail opportunities to other travel touch points.

LEVERAGING PROVEN SUCCESS – ONBOARD

Grow market share through new carrier deployments

GuestLogix will leverage its proven success in serving over 40% of the global Airline industry by integrating its solution into additional carrier environments across various regions. The opportunity to secure new transactions onboard the remaining major air carriers remains a central focus of our growth strategy. The two key focus areas will be on North America, via our existing relationships, and Asia Pacific.

The remaining share of the market in North America is predominantly made up of regional operations parented by mainline operators already in GuestLogix' current customer base. The Company understands there is a desire to bring an onboard retail solution onboard these regional carriers who currently operate in a cash-only model. GuestLogix is confident that the relationships it has built with its current client base will ease the efforts of signing these new agreements and generating new transactions through its Transaction Processing Engine.

Additionally, Asia Pacific remains the largest untapped market in the industry. Asia had previously been resistant to adopting an onboard retail model beyond traditional duty-free and subsequently many carriers in the region have yet to implement onboard retail technology still using manual paper receipts and inventory counting processes. With the increased presence of the low-cost carrier (LCC) market in Asia and an overdue requirement for onboard technology, GuestLogix will continue its aggressive growth efforts in the region through:

- ***Strategic Channels*** - the Company is the preferred retail technology provider to both Inflight Sales Group (represents access to 156M passenger trips annually) and Alpha Flight Services (represents access to 69M passenger trips annually)

- ***Physical Presence*** – the Company will be supporting several of its current deployments including Qantas Airways and Garuda Indonesia with an increased regional management and client service presence to be implemented during the balance of 2011 and early 2012

Increased number of transactions and transaction value

Lucrative revenue growth can also be attained through a focus on our current customer base. Travelers, particularly within North America which represents the largest portion of our customer base, are more conditioned to spend money onboard. GuestLogix continues to aggressively trial new product offerings in each of our OnTouch® Merchandising categories to exploit consumer spending habits onboard.

Upon successful implementation of the commitments above, GuestLogix stands to significantly grow its GTV. The cumulative potential retail value of the 13 programs set to go live by the end of fiscal 2011 is ~$287M in new gross transactions with an assumed 1% passenger take-up rate. GuestLogix would not only receive its standard transaction fee for these new transactions, but would also receive a percentage of all sales.

Access to the Onboard Store beyond the POS handheld

The handheld POS device has always been considered simply a means of access to the GuestLogix solution, not the solution in and of itself. As such, GuestLogix is now working with several leading technology providers who will enable new access points to the Onboard Store. These self-service models include in-flight entertainment systems (both seatback screens and portable versions) as well as in-flight entertainment driven though Wi-Fi enabled portals delivered to passenger devices onboard.

As passengers expectations for high-quality in-flight entertainment increase, airlines are working to justify the costs associated with these systems. Likewise, with the onset of in-flight connectivity through either in-cabin Wi-Fi or air-to-ground satellite or cell connections, the industry is still in the early stages of deciding which direction it will lean. GuestLogix is in various stages of integrating payment capabilities as well as developing greater retail capacity with several players within the In-flight Entertainment and Connectivity sector positioning itself to be ready for whichever direction(s) the industry takes. This effort has significant potential to add an additional revenue stream to the Company.

Retailing on the rails

GuestLogix' current rail clients have provided the Company with the experience required to penetrate into this sector which has significant similarities to the airline industry. As the majority of GuestLogix' contracted deployments have been within the airline sector, focus will extend to the rail sector to leverage current channel partnerships and secure direct partnerships with key rail operators. Specifically, we will continue to pursue our efforts in the European rail sector as it represents significant passenger trip growth potential in excess of 6.0 billion annually.

LEVERAGING PROVEN SUCCESS – OFF BOARD

Extending platform access to other access points off board

GuestLogix believes that the Airline industry's dependency on ancillary revenue streams will continue to grow leading to an ever increasing industry focus on new ways to penetrate new opportunities throughout the entire travel cycle.

As GuestLogix has matured, its ability to support new initiatives throughout an Airline's entire enterprise has become increasingly apparent. The travel cycle generally has 12 distinct touch points in which an airline can engage with their passenger.

The OnTouch® Technology platform is ready for use as a multi-functional mobile platform enabling the integration of both retailing and non-retailing applications to support a comprehensive mobile strategy. As the OnTouch® Technology platform was developed for 'retailing-on-the-move', the GuestLogix Solution is well positioned for increased usage within any travel operation.

Whether at home, on the transfer to the airport, at the airport, onboard, at their destination and throughout the cycle again on the return trip, there are several previously missed opportunities airlines are now looking to capitalize on. The GuestLogix solution is well positioned to be leveraged by the airlines into these new areas in order to speed their time to market. The OnTouch® Technology and Merchandising Platforms have been developed to operate as an eCommerce platform and mobile platform in addition to its current use as an onboard platform. GuestLogix is confident in the potential expansion from onboard to off board, and its ability to develop OnTouch® platforms with the highest certification standards in the industry.

An area of interest to GuestLogix is the integration of the OnTouch® Technology and Merchandising platforms into standalone kiosks for use by Airlines pre/post-flight in the Airport environment as well as by other ground-based travel operators.

Connecting flights. Airports represent significant opportunity

GuestLogix has begun to work with airport operators, enabling the sale of destination-based products and services at airports. Airports, like the airlines, have an increased reliance on generating new revenues outside of their core product. Initial retailing success for airports has proven that offerings beyond standard duty-free products and food services are essential to achieving profitability. Targeted airports include Dallas Ft. Worth International, New York (JFK, LGA, EWR), London (LHR, LGW, LTN, STN), Chicago (ORD, MDW) and Los Angeles International which represent a total of 430 million passengers annually. GuestLogix will continue to explore this business area and anticipates revenue impact to be achieved by the end of this fiscal year.

Hotels prime for destination merchandising

The adoption of the OnTouch® Technology and Merchandising platforms into multiple areas of a hotel operation provides for great growth potential. Currently, destination-based offerings are seen as a challenge for large chain hoteliers to manage as their distribution network is vast. GuestLogix' OnTouch® Merchandising platform in particular has been developed for easy management of such a distribution network and can be easily integrated into in-room television systems as well as stand-alone kiosks in the lobbies. In the near-term, we will concentrate on the six major hotel chains: IHG, Wyndham, Marriott, Hilton, Starwood and Hyatt which represent access to 500 million travelers.

[GLOBAL MARKET CONDITIONS]

Natural disasters in Japan, political unrest in the Middle East and North Africa, plus the sharp rise in oil prices have reduced industry profit expectations for 2011. IATA recently downgraded its Airline industry profit forecast to $4 billion, which is a 54% drop compared to its previous forecast in March 2011 of $8.6 billion, and a 78% drop compared with the $18 billion net profit recorded in 2010. Net profit margin for the industry remains weak with a projection of 0.7% for 2011.

The cost of fuel appears to be the primary driver behind reduced profitability, as the average oil price for 2011 is now expected to be $110 per barrel, a 15% increase over the previous forecast of $96 per barrel. Compared to levels in 2010, oil prices are now expected to be 20% higher in 2011. Including the impact of hedging, which is roughly 50% of expected consumption, this will increase the industry fuel bill by $10 billion to a total of $176 billion. Fuel is now estimated to comprise 30% of airline costs, and volatilities in fuel prices remain one of the industry's most significant challenges.

Demand growth rates for both cargo and passenger markets have been revised downward because of higher fuel costs. Passenger demand is now expected to grow 4.4% over the year while cargo demand is expected to increase 5.5%, compared to previous growth rates of 5.6% and 6.1% respectively. The number of price sensitive leisure travelers has fallen 3-4% over the past five months as travel costs were forced higher by fuel prices and, in Europe, by new passenger taxes. Passenger load factors are currently hovering around 77% which is more than a full percentage point below the 78.4% achieved for international traffic in 2010.

All regions are following the global trend of reduced profitability in 2011 compared to 2010. In the North American market, where GuestLogix has over 90% of carriers under agreement, airline operators are expected to see the 2010 profit of $4.7 billion decrease to approximately $1.2 billion in 2011. The regions carriers are being impacted on the cost side by rising fuel prices, and older and less fuel efficient aircraft fleets. This impact is being offset by a stronger than expected US economy, and stronger inbound demand and exports fueled by the weak US dollar. Carriers in this region will continue to seek ways to generate ancillary revenues to offset these cost pressures, which places GuestLogix in a position to target the regional operators parented by mainline operators already in GuestLogix' current customer base.

In addition to targeting regional operators in North America, the Company's focus for new carrier deployments is in the Asia Pacific region where carriers are expected to earn $2.1 billion in 2011, the most profitable of all regions. Although the Japanese earthquake and tsunami are expected to dent the regions prospects for the remainder of the year, this will be more than offset by robust growth coming out of both China and India.

European carriers are expected to make a $500 million profit in 2011, down from the $1.9 billion that the region's carriers made in 2010. The sovereign debt crisis is dampening demand and new and increased taxation of passengers is damaging price-sensitive demand.

The key risk to the industry outlook is the weakening of global economic growth. The corporate sector is also cash-rich, business confidence is slowly improving, and world trade continues to expand at around 9% annually. IATA's forecast for continued airline profits despite $110 per barrel oil prices is dependent on a strong economy to generate sufficient revenues to partially offset higher fuel costs.

Although the industry's profitability forecast remains weak for the remainder of 2011, we still expect that our existing and prospective customers will continue to drive improvements in 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 that add value to the total travel experience.

[RESULTS OF OPERATIONS]

The table below sets out the statement of operations for the three and six months ended May 31, 2011 and May 31, 2010:

	Three months ended May 31, 2011	Three months ended May 31, 2010	Six months ended May 31, 2011	Six months ended May 31, 2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Consolidated Statements of Operations Data:				
REVENUE	$ 6,110,805	$ 6,436,850	$ 12,500,342	$ 12,457,385
OPERATING EXPENSES				
Cost of equipment sales	800,070	1,105,028	1,714,600	1,980,628
Research and development	357,668	255,516	798,500	474,595
Customer delivery and support	313,757	434,122	658,401	1,003,943
Infrastructure support	1,582,846	1,037,461	3,073,396	2,072,211
Sales and marketing	536,717	555,583	1,051,755	1,067,214
General and administrative	998,981	1,268,245	1,886,236	2,132,144
Stock-based compensation	123,000	89,580	246,000	194,580
Amortization of capital assets deployed	1,187,088	1,299,083	2,451,261	2,590,736
Amortization of equipment	31,979	22,827	61,390	44,440
	5,932,106	6,067,445	11,941,539	11,560,491
INCOME FROM OPERATIONS	178,699	369,405	558,803	896,894
Other income (expenses)				
Foreign exchange gain (loss)	101,475	(114,237)	(191,249)	(147,343)
Interest earned	1,761	9,152	4,354	12,846
Interest expense (note 6)	(74,193)	(110,415)	(165,799)	(260,528)
Term loan interest and fees (note 7)	(18,433)	(101,223)	(60,279)	(196,396)
	10,610	(316,723)	(412,973)	(591,421)
NET INCOME AND COMPREHENSIVE INCOME FOR THE PERIOD	$ 189,309	$ 52,682	$ 145,830	$ 305,473
Supplementary Financial Data				
Basic and diluted earnings per share	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Weighted average number of common shares				
used in basic earnings per share	64,817,119	63,849,996	64,812,700	63,826,950
Weighted average number of common shares				
used in diluted earnings per share	65,475,833	68,034,691	65,652,858	68,007,645

	May 31, 2011	November 30, 2010
Consolidated Balance Sheets Data		
Cash and cash equivalents		
excluding restricted cash and cash equivalents	$ 7,617,573	$ 8,847,386
Working capital	$ 7,661,809	$ 6,635,232
Total assets	$ 34,015,688	$ 37,827,115
Long-term liabilities, excluding current portion	$ 6,315,641	$ 8,911,172
Total shareholders' equity	$ 15,482,610	$ 15,059,250

[COMPARISON OF THE THREE MONTHS ENDED MAY 31, 2011 AND 2010]

REVENUE

The Company experienced a slight decline in revenue of $278,732 or 4% quarter over quarter, from $6,389,537 to $6,110,805. Revenue was also down year over year, from $6,436,850 for the three months ended May 31, 2010 to $6,110,805 for the three-months ended May 31, 2011, a decline of 5%. For the six month periods ended May 31, 2011 and 2010, revenue was $12,500,342 and $12,457,385 respectively. The declines are primarily the result of unfavorable exchange rate fluctuations in the U.S. Dollar, Euros, AUD $ and Sterling when compared to the rates as at November 30, 2010 and 2009.

OPERATING EXPENSES

The following table sets out the changes in Company's operating expenses for the three months ended May 31, 2011 and May 31, 2010:

	Three months ended May 31,		Six months ended May 31,	
	2011	2010	2011	2010
OPERATING EXPENSES				
Cost of equipment sales	800,070	1,105,028	1,714,600	1,980,628
Research and development	357,668	255,516	798,500	474,595
Customer delivery and support	313,757	434,122	658,401	1,003,943
Infrastructure support	1,582,846	1,037,461	3,073,396	2,072,211
Sales and marketing	536,717	555,583	1,051,755	1,067,214
General and administrative	998,981	1,268,245	1,886,236	2,132,144
Stock-based compensation	123,000	89,580	246,000	194,580
Amortization of capital assets deployed	1,187,088	1,299,083	2,451,261	2,590,736
Amortization of equipment	31,979	22,827	61,390	44,440
	$ 5,932,106	**$ 6,067,445**	**$ 11,941,539**	**$ 11,560,491**

Cost of equipment sales were $800,070 for the three month period ended May 31, 2011 compared to $1,105,028 for the same period in 2010. Cost of equipment sales for the six month periods ended May 31, 2011 and 2010 were $1,714,600 and $1,980,628 respectively. These sales included hand-held devices, peripheral equipment and accessories used by clients to support the OnTouch® technology platform.

Research and development expense were $357,668 for the three month period ended May 31, 2011 compared to $255,516 for the same period in 2010. Research and development costs for the six month periods ended May 31, 2011 and 2010 were $798,500 and $474,595 respectively. The increase relates to the Company further investing in the development of its OnTouch® technology platform. In addition, resources were reallocated in December 2010 from customer delivery and support to research and development. Personnel costs including benefits accounted for approximately 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 May 31, 2011 expenses totaled $313,757, compared to $434,122 for the same period in 2010. For the six month periods ended May 31, 2011 and 2010 these expenses were $658,401 and $1,003,943 respectively. Personnel costs accounted for over 95% of the expenses in both periods. The decrease is due to a reallocation of resources in December 2010, in which resources from customer delivery and support were moved to other departments, including research and development, and infrastructure support.

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 May 31, 2011 the expense totaled $1,582,846, compared to $1,037,461 for the same period in 2010. For the six month periods ended May 31, 2011 and 2010 these expenses were $3,073,396 and $2,072,211 respectively. The overall increase is driven by our growth in volumes and the third-party costs related to processing and hosting of client data. In addition, resources were reallocated in December 2010 from customer delivery and support to infrastructure support.

Sales and marketing expense for the three month period ended May 31, 2011, decreased slightly to $536,717 compared to $555,583 for the same period in 2010. For the six month periods ended May 31, 2011 and 2010 these expenses were $1,051,755 and $1,067,214 and respectively.

General and administrative expenses for the three month period ended May 31, 2011, decreased to $998,981 compared to $1,268,245 for the same period in 2010. For the six month periods ended May 31, 2011 and 2010, these expenses were $1,886,236 and $2,132,144 respectively. Personnel costs totaled $380,301 for the three-months ended May 31, 2010 compared to $243,243 for the same period in 2010. For the six-month periods ended May 31, 2011 and 2010, personnel costs were $781,224 and $436,054 respectively. Legal fees, which consist primarily of expenditures incurred to defend the Company's intellectual property, amounted to $153,731 for the three month period ended May 31, 2011 compared to $487,882 for the same period in 2010, a decrease of 68%. For the six month periods ended May 31, 2011 and 2010, legal fees were $259,926 and $772,977 respectively.

Our investment in the OnTouch® merchandising service and other new product and service initiatives continued to grow in the quarter. Total costs relating to OnTouch® and other new initiatives were $968,269 during the quarter (2010 - $617,656), with personnel costs comprising approximately 64% of the total expenses (2010 – 96%). During the three months ended May 31, 2011, costs totaling $844,335 were capitalized as deferred development costs relating to OnTouch® and other new initiatives (2010 - $214,043), while the remaining $123,934 were expensed within the various expense categories (2010 - $403,613).

Total Company headcount grew from 75 as at May 31, 2010 to 119 at the end of the second quarter 2011, and down from 127 as at November 30, 2010. It is expected that headcount will grow in the latter part of 2011 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 May 31, 2011 increased 37% to $123,000, compared to $89,580 for the same period in 2010. For the six month periods ended May 31, 2011 and 2010, expenses were $246,000 and $194,580 respectively. The increase is due to a greater number of stock options granted in the six-month period ended May 31, 2011 compared to the same period in 2010.

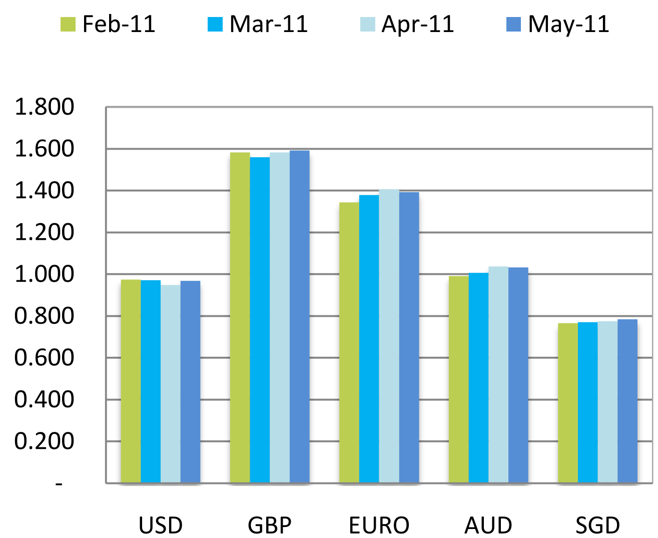
Amortization of capital assets deployed recognizes the cost of the point-of-sale hand-held devices deployed to clients against the transaction-based revenues earned from those clients. The cost is recognized over the initial term of the contract, usually ranging from three to five years. Amortization of capital assets deployed for the three-month period ended May 31, 2011 was $1,187,088, a decrease of 9% compared to $1,299,083 for the comparable period in 2010. For the six-month periods ended May 31, 2011 and 2010 amortization of capital assets deployed were $2,451,261 and $2,590,736 respectively.

During the three month period ended May 31, 2011, amortization of equipment totaled $31,979, compared to $22,827 for the same period in 2010. For the six month periods ended May 31, 2011 and 2010, amortization expenses were $61,390 and $44,440 respectively.

OTHER INCOME AND EXPENSES

The foreign exchange gain for the three month period ended May 31, 2011 was $101,475, compared to a loss of $114,237 for the comparable period in 2010. For the six-month periods ended May 31, 2011 and 2010, losses were $191,249 and $147,343 respectively. Gains and losses are driven by the growing volume of overseas business denominated in Euros, Sterling, AUD $, and U.S. Dollar and the relative strength of the Canadian dollar during the last several months. The following graph shows the change in foreign exchange rates relative to the Canadian dollar for the four most recent months:

Foreign Exchange Rates via Bank of Canada



As the majority of the Company's revenues are denominated in foreign currencies, revenues are impacted by exchange rate fluctuations. For the three and six months ended May 31, 2011, the Company would have realized $326,558 and $444,508 in additional revenues if not for unfavourable exchange rate fluctuations in the U.S. Dollar, Euros, AUD $ and Sterling when compared to the rates as at November 30, 2010. The Company does not currently use derivative instruments to hedge against foreign exchange risk as it has a natural hedge in U.S. Dollars.

For the three month period ended May 31, 2011, interest income fell to $1,761, compared to $9,152 for the same period in 2010. For the six month periods ended May 31, 2011 and 2010, interest income was $4,354 and $12,846 respectively.

For the three month period ended May 31, 2011, interest expense decreased to $74,193, compared to $110,415 for the comparable period in 2010. For the six month periods ended May 31, 2011 and 2010, interest expense was $165,799 and $260,528 respectively. The decrease in interest expense is due to the decline in outstanding lease obligations throughout the six month period ended May 31, 2011.

Term loan interest and fees relate to charges on the non-revolving financing facility which was repaid in full in January 2011, and the new term loan agreement entered into at the same time. The Company incurred interest and charges on the term loan of $18,433 during the three months ended May 31, 2011, compared to $101,223 for the comparable period in 2010. For the six month periods ended May 31, 2011 and 2010, the charges were $60,279 and $196,396 respectively.

[LIQUIDITY AND CAPITAL RESOURCES]

The table below outlines a summary of cash inflows and outflows by activity.

Statements of Cash Flows Summary:	**Three months ended May 31, 2011**	**2010**	**Six months ended May 31, 2011**	**2010**
Cash inflows and (outflows) by activity:				
Operating activities	$ 660,972	$ 2,195,451	$ 996,104	$ 3,019,728
Investing activities	(64,521)	(529,551)	(510,364)	(1,318,006)
Financing activities	(1,088,472)	(159,295)	(1,715,553)	(1,151,725)
Net cash (outflows)	(492,021)	1,506,605	(1,229,813)	549,997
Cash and cash equivalents, beginning of period	8,109,594	8,479,072	8,847,386	9,435,680
Cash and cash equivalents, end of period	$ 7,617,573	$ 9,985,677	$ 7,617,573	$ 9,985,677
Cash	$ 4,199,829	$ 4,730,123	$ 4,199,829	$ 4,730,123
Short-term deposits up to 90 days	$ 3,417,744	$ 5,255,554	$ 3,417,744	$ 5,255,554

As at May 31, 2011 and November 30, 2010, GuestLogix had cash and cash equivalents totaling $7,617,573 and $8,847,386 respectively. Including restricted cash and cash equivalents the amounts were $8,636,373 and $11,463,386.

In the three-month period ended May 31, 2011, cash generated by operating activities was $660,972, compared to $2,195,451 for the same period in 2010. For the six month periods ended May 31, 2011 and 2010, cash generated by operating activities was $996,104, and $3,019,728 respectively. Cash generated by operating activities for the three and six month periods ended May 31, 2011 was primarily the result of positive operating income and a decrease in inventory, reduced by increases in prepaid expenses and accounts receivable, and a decrease in accounts payable and accrued liabilities, offset by increases relating to add backs of non-cash expenses including amortization of capital assets deployed, amortization of deferred cost of equipment sales, and stock-based compensation expense.

In the three month period ended May 31, 2011, cash used in investing activities was $64,521, compared to $529,551 for the same period in 2010. For the six month periods ended May 31, 2011 and 2010, cash used in investing activities was $510,364 and $1,318,006 respectively. Cash used in investing activities during the three and six month periods ended May 31, 2011 was primarily the result of capital assets purchased for deployment, additions to equipment and development costs incurred, offset by a decrease in restricted cash.

In the three month periods ended May 31, 2011 and May 31, 2010, cash used in financing activities was $1,088,472 and $159,295 respectively. For the six-month period ending May 31, 2011, cash used in investing activities totaled $1,715,553, whilst $1,151,725 was used in the same period in 2010. Cash used in financing activities during the three and six months ended May 31, 2011 was primarily the result of principal repayments on outstanding capital lease obligations and the term loan, offset by proceeds from the exercise of stock options and warrants.

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 technology platform solution.

[SUMMARY OF UNAUDITED QUARTERLY RESULTS]

The following table sets forth unaudited statements of operations data for the eight most recent quarters ended May 31, 2011 as prepared in accordance with GAAP. The information has been derived from our unaudited financial statements that, in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements for the years ended November 30, 2010 and 2009 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.

	2011		2010				2009	
In thousands	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	$6,111	$6,390	$6,461	$6,803	$6,437	$6,021	$5,190	$4,808
Net Income (Loss)	$189	$(43)	$160	$139	$53	$253	$208	$238
Basic and Diluted Earnings (Loss) per Share	$0.00	$(0.00)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00

[COMMITMENTS AND CONTRACTUAL OBLIGATIONS]

GuestLogix 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	2011	2012	2013 and Beyond
Lease obligations:				
Capital leases	$3,397,032	$1,314,747	$1,620,606	$ 461,679
Operating leases	436,820	115,207	227,400	94,213
Total contractual obligations	$3,833,852	$1,429,954	$1,848,006	$ 555,892

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 interim 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 Asia Pac regions. The Company intends to enter into capital leases or debt facilities on an ongoing basis to finance the acquisition of these point-of-sale payment devices. The Company expects to be cash flow positive throughout 2011 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 $4,669,840.

[OFF BALANCE SHEET ARRANGEMENTS]

As at May 31, 2011, the Company had no off-balance sheet arrangements.

[PROPOSED TRANSACTIONS]

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

[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 six months ended May 31, 2011, $4,418,019 and $9,247,303 of the Company's revenue (2010 - $5,009,013 and $9,558,657) was derived from North America, while the remainder of $1,692,786 and $3,253,039 (2010 - $1,427,837 and $2,898,728) was derived primarily from Europe, the Middle East and Asia Pacific.

During the three and six months ended May 31, 2011, the five top customers accounted for 61% and 60% of the total revenue respectively (2010 – 62% and 62%).

[OUTSTANDING SHARE DATA]

As at May 31, 2011, GuestLogix had issued and outstanding 64,838,630 common shares, 5,585,453 stock options with exercise prices ranging from $0.47 to $1.80 per share, and 1,267,527 share purchase warrants with exercise prices ranging from US $0.726 to US $0.907 per share.

[CONTINGENCIES]

The Company is involved in certain claims and litigation arising out of the ordinary course and conduct of business. Management assesses such claims and, if they are considered likely to result in a loss and the amount of the loss is quantifiable, provisions for loss are made, based on management's assessment of the most likely outcome. Management does not provide for claims for which the outcome is not determinable or claims where the amount of the loss cannot be reasonably estimated.

In April 2010, the Company filed a complaint against two former employees and a third party alleging, among other things, misappropriation of the Company's confidential information and seeking compensatory damages and injunctive relief. The corporate defendant counterclaimed alleging, among other things, misappropriation of the corporate defendant's confidential information and is seeking compensatory damages.

In July 2010, the Company filed a complaint against a former customer alleging, among other things, breach of contract and is seeking compensatory damages. The defendant counterclaimed, alleging, among other things, breach of contract and is seeking compensatory relief.

Neither the potential liability nor the outcomes of these legal actions are reasonably determinable at this time, and as such no provision has been accrued for the settlement of the claims, if any.

[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 May 31, 2011, 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. A control system no matter how well conceived or operated, can provide only reasonable, not absolute assurance that the objectives of the control system are met.

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 May 31, 2011, 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 interim 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]

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

The Company is using a four phase approach to ensure successful conversion to IFRS, including:

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

The Company has performed the diagnostic assessment, designed a detailed IFRS conversion plan, and is currently in the solution development phase. An education process for management and the board of directors has also commenced, including evaluating the effect of the new standards on its consolidated financial statements.

Determination of the key differences between IFRS and the Company's accounting policies has been completed, including an evaluation of the main potential impact on its business practices, systems, disclosure controls and procedures, and internal controls over financial reporting.

The Company has identified 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 has 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]

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, accounts payable and accrued liabilities, 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 these instruments approximates its fair value due to its short-term nature.

Accounts receivable are classified as loans and receivables and are measured at amortized cost. Accounts payable and accrued liabilities, 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:

	May 31, 2011	November 30, 2010
Cash	$ 4,199,829	$ 5,267,508
Short-term deposits	3,417,744	3,579,878
	$ 7,617,573	$ 8,847,386

[FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS]

Financial instruments of GuestLogix consist of cash and cash equivalents, restricted cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, 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 62% (November 30, 2010 - 74%) of the total accounts receivable. As GuestLogix expands its offerings and increases distribution of its products, management anticipates the dependency on these customers to decrease and its accounts receivable and contract risks to 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 May 31, 2011 was $150,000 (November 30, 2010 - $150,000)

The following table provides information regarding the aging of accounts receivable. Balances over 60 days are past due, but are not impaired:

As at May 31, 2011:

Current	31 - 60 days	61-90 days	91 days +	Carrying value
$ 2,869,147	$ 926,969	$ 628,863	$ 1,237,044	$ 5,662,023

As at November 30, 2010:

Current	31 - 60 days	61-90 days	91 days +	Carrying value
$ 2,750,902	$ 581,504	$ 266,686	$ 1,890,727	$ 5,489,819

Subsequent to May 31, 2011, the Company collected $1,005,782 of its accounts receivable balance.

The definition of amounts that are past due is determined by reference to terms agreed with individual customers. No significant amounts outstanding have been challenged by the respective customers and the Company continues to conduct business with them on an ongoing basis. Accordingly, management expects that balances are fully collectible in the future.

LIQUIDITY RISK

The Company believes that at the present time it does not face significant liquidity risk as it has been able to continue to source funding for the point-of-sale hand-held devices and its development initiatives. The Company reported positive cash-flow from operations during the six months ended May 31, 2011, and has a significant cash balance on hand 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.

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 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.

		Impact on net profit $
Change of =+/- 10% in US $ foreign exchange rate	+/-	380,700
Change of =+/- 10% in Euro € foreign exchange rate	+/-	199,300
Change of =+/- 10% in GBP £ foreign exchange rate	+/-	80,600
Change of =+/- 10% in AUD $ foreign exchange rate	+/-	43,100

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

Limitations of sensitivity analysis

The above table demonstrates the effect of change in foreign exchange rates. The financial position of the Company may vary at the time that 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:

- the ability to predict whether it will meet internal or external expectations,
- the ability to offer competitive pricing for its products,
- the ability to finance its transaction-based business model,
- the ability to finance its development initiatives,
- the ability to maintain its current relationships and develop new strategic relationships,
- the ability to attract and retain qualified employees,
- the ability to develop new technology,
- the Company's internal controls, and
- the Company's limited operating history and evolving business model

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 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 region.

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