WISE, BLACKMAN LLP

FAIR VALUE OF
DISTRIBUTIONS CAR-TEL INC.
AS AT MARCH 31, 2009

PRIVATE & CONFIDENTIAL

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DISTRIBUTIONS CAR-TEL INC.
AS AT MARCH 31, 2009

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June 30, 2009

Saratoga Electronic Solutions Inc.
2975 Hochelaga
Montréal, Québec
H2V 4B3

VIA E-MAIL

ATTENTION: Mr. Georges A. Durst, Chief Executive Officer

Gentleman:

RE: Fair Value of Distributions Car-Tel Inc.
as at March 31, 2009
Pursuant to Canadian Generally-Accepted Accounting Principles ("GAAP")

1. ASSIGNMENT

You have requested our estimate ("Estimate")[1] of the fair value[2], at March 31, 2009 (the "Valuation Date"), of Distributions Car-Tel Inc. ("Car-Tel" or the "Reporting Unit") for purposes of the annual goodwill impairment test, pursuant to the requirements of Section 3062 of the *Handbook* ("*Handbook*") of the Canadian Institute of Chartered Accountants ("CICA") ("Step One"), as further described hereinbelow.

You have also requested that, should our conclusions with respect to Step One indicate that the goodwill of Car-Tel has been impaired, we determine the fair values of Car-Tel's intangible assets in order to quantify such impairment ("Step Two").

(1) As we have been requested to provide an Estimate Valuation Report, our scope of review is inherently limited by the nature of the Valuation Report being provided; the conclusion expressed herein may have been different had a Comprehensive Valuation Report been prepared.

(2) Defined in Section 1.1 hereinbelow.

We understand that, as the financial statements of Saratoga Electronic Solutions Inc. ("Saratoga" or the "Parent") are prepared in accordance with GAAP, our Estimate will be used by management in the preparation of the financial statements and may be referred to by the Parent's auditors, WSBG LLP ("WSBG"), in connection with the Parent's financial reporting.

Section 3062 of the *Handbook* requires that goodwill and intangible assets having indefinite useful lives be tested for impairment at least annually at the "reporting unit" level under a two-step process that begins with an estimation of the fair value of the Reporting Unit. The "Step One" analysis is performed to identify any potential impairment in the value of the Reporting Unit by comparing its fair value with its carrying amount, including goodwill as reported in the financial statements. If this test indicates that the carrying amount of the Reporting Unit exceeds its fair value, there is impairment and a "Step Two" analysis must accordingly be performed.

Our Estimate has been prepared pursuant to Canadian GAAP and the Practice Standards promulgated by The Canadian Institute of Chartered Business Valuators.

1.1 Fair Value

"Fair value", for purposes of measuring the identifiable individual assets and liabilities of an enterprise pursuant to GAAP, is defined as "the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act".[3]

(3) Paragraphs 1581.06(b) and 3062.05(a) of the *Handbook*.

1.2 Fair Value Measurement

Paragraphs A1 to A8 of Appendix A to Section 1581 of the *Handbook* (and Statement of Financial Accounting Standards ("SFAS") 142.23 to 142.25[4] and SFAS 157.22 to 157.31[5]) establish a hierarchy for fair value measurements, comprising three "levels".

"**FAIR VALUE MEASUREMENT**

A1 Fair value can be characterized as the amount at which an item could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. The fair value of a business unit (e.g., a company, division or reporting unit) is the amount at which the unit as a whole could be bought or sold in a current transaction between willing parties.

A2 Quoted market prices in active markets, if available, are the best evidence of fair value and are, therefore, used as the basis for fair value measurement, when available.

...

A5 When quoted market prices are not available or are not representative of fair value, estimates of fair value are based on the best information available, including prices for similar items and the results of other valuation techniques. Valuation techniques used would be consistent with the objective of measuring fair value.

...

A7 A valuation technique based on multiples of earnings, revenue or a similar performance measure may be used if that technique is consistent with the objective of measuring fair value. Use of multiples of earnings or revenues in determining the fair value of a business unit may be appropriate, for example, when the fair value of an enterprise with comparable operations and economic characteristics is observable and the relevant multiples of the comparable enterprise are known. Conversely, use of multiples is not appropriate in situations when the operations or activities of an enterprise for which the multiples are known are not of a comparable nature, scope, or size as the business unit for which fair value is being estimated.

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(4) SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets.

(5) SFAS No. 157 addresses financial accounting and reporting for fair value measurements.

A8 A present value technique is often the best available technique with which to estimate the fair value of a group of items (such as a group of assets in a reporting unit) and generally includes the following elements:

(a) an estimate of the series of future cash flows at different times;

(b) expectations about possible variations in the amount or timing of those cash flows;

(c) the time value of money, represented by the risk-free rate of interest; and

(d) the price for bearing the uncertainty inherent in the asset or liability.

Other factors, if identifiable, include illiquidity and market imperfections. ... "

Appendices A9 through A13 of Section 1581 of the *Handbook* elaborate on certain general principles governing the application of present-value techniques in measuring assets or liabilities:

"A10 If a present value technique is used to measure fair value, estimates of future cash flows are to be consistent with the objective of measuring fair value. These cash flow estimates incorporate assumptions that market-place participants would use in their estimates of fair value whenever that information is available without undue cost and effort. Otherwise, an enterprise may use its own assumptions.

A11 An enterprise's best estimate of the present value of cash flows will not necessarily equal the fair value of those uncertain cash flows. There are several reasons why an enterprise might expect to realize or pay cash flows that differ from those expected by others in the marketplace. Those include:

(a) The enterprise's managers might intend different use or settlement than that anticipated by others. For example, they might intend to operate a property as a bowling alley, even though others in the marketplace consider its highest and best use to be a parking lot;

(b) The enterprise's managers may prefer to accept risk of a liability (like a product warranty) and manage it internally, rather than transferring that liability to another enterprise;

(c) The enterprise might hold special preferences, like tax or zoning variances, not available to others;

(d) The enterprise might hold information, trade secrets, or processes that allow it to realize (or avoid paying) cash flows that differ from others' expectations; and

(e) The enterprise might be able to realize or pay amounts through use of internal resources. For example, an enterprise that manufactures materials used in particular processes acquires those materials at cost, rather than the market price charged to others. An enterprise that chooses to satisfy a liability with internal resources may avoid the mark-up or anticipated profit charged by outside contractors.

A12 Cash flow estimates are based on reasonable and supportable assumptions and consider all available evidence. The weight given to the evidence is commensurate with the extent to which the evidence can be verified objectively.

A13 An enterprise incorporates expectations about possible variations in cash flows into either the projected cash flows or the discount rate or some combination of the two."

1.3 Credentials of Wise, Blackman LLP

Wise, Blackman LLP ("**Wise, Blackman**") is an internationally-recognized independent consulting firm engaged exclusively in the valuation of businesses, business equity, securities and intangible assets, in connection with business combinations, distributions of listed and unlisted securities, private placements, exchanges of shares, corporate and financial reorganizations, going-private transactions, leveraged buy-outs and valuations for various other purposes such as fair value measurement for financial reporting, income taxation, financing, and financial structuring and restructuring. Our firm, which has been serving as an independent valuation consultant to business and government, has performed an extensive number of valuations of public and private companies throughout Canada and in the United States as well as the fair value measurement of reporting units and intangible assets for financial reporting pursuant to Canadian and U.S. GAAP.

Since **Wise, Blackman** was founded in 1979, the firm has completed over 3,000 valuations and its professionals have been accepted as valuation experts by courts across Canada in more than 250 cases, as well as by courts in the U.S.

Wise, Blackman has provided valuation and related services [public information] for, or for shareholders/stakeholders of, among others, Abitibi-Consolidated Inc., Alliance Film Corporation, Amrop International, Air Canada, Bank of Montreal, Bank of Nova Scotia, BASF, Bell Canada, BP America, Canadian Pacific Ltd., Chiron, CSX, Domtar, Fraser Companies, General Instrument, Gildan Activewear, Global Communications, Guarantee Company of North America, Honeywell, Hunter Douglas, Ivaco Inc., Keeprite, Kruger Inc., Lloyds of London, Loblaw Companies, Maple Leaf Gardens Limited, Merck, Michelin Tire, National Sea Products, Quebecor, Radio Shack, Southam Publishing, Télémedia Inc., Toronto-Dominion Bank, Ultramar, Xerox Financial Corp. and various ministries of the Canadian government, including the Department of Foreign Affairs and International Trade, Justice Canada, the Canada Revenue Agency, the CRTC and the Competition Bureau, as well as the Provinces of New Brunswick, Québec, Ontario, Saskatchewan and British Columbia. We have also valued several companies in the payment processing industry.

Wise, Blackman, which serves many clients in the United States, has also acted for clients in England, British Virgin Islands, The Bahamas, Bermuda, Ukraine, Germany, Switzerland, South Africa and Saudi Arabia and is the Canadian member of the Financial Consulting Group, L.C., a U.S.-based network of eighty-five independent professional valuation firms.

Wise, Blackman's professionals have contributed comprehensive, technical chapters that are published in a number of authoritative books in Canada and the U.S. on business valuation and financial litigation, including those of the American Institute of Certified Public Accountants;[6] McGraw-Hill;[7] Irving Library of Investment and Finance;[8] John Wiley & Sons;[9] Warren, Gorham & Lamont;[10] and Aspen Law & Business,[11] have been regular columnists in professional journals in Canada and the U.S. and have authored/co-authored books on business valuation and litigation support.

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(6) *Income Reconstruction: A Guide to Discovering Unreported Income* (New York: 1999).

(7) *The Handbook of Business Valuation and Intellectual Property Analysis* (New York: 2004).

(8) *The Handbook of Advanced Business Valuation* (New York: 1999).

(9) *Handbook of Business Valuation*, First Edition (1992) and Second Edition (New York: 1999).

(10) *Financial Valuation: Businesses and Business Interests* (New York: 1997).

(11) *Valuing Professional Practices and Licenses*, Third Edition (New York: 1999).

1.4 Independence of Wise, Blackman LLP

Wise, Blackman is not an insider, associate or affiliate of the Parent or any of its affiliates or associates, and has no interests or investments therein.

Wise, Blackman's professional fees for services rendered in preparing this Estimate were not contingent, in whole or in part, on the conclusions reaches herein and were based on the professional time expended on the engagement at our standard rates.

No member of our firm has, or intends to have, any investment in the Parent as an investor, or in any other manner.

2. ESTIMATE

Based upon our review and analysis of the information and documents provided to us, the explanations received, and subject to the restrictions, qualifications and assumptions noted herein (see Section 2.1, **Restriction and Disclaimer**), the fair value, at the Valuation Date, of the Reporting Unit, ranged between $4,006,000 and $4,078,000. The carrying amount of the Reporting Unit at the Valuation Date was $2,922,000[12], indicating that there is no requirement to perform Step Two of the annual goodwill impairment test.

2.1 Restriction and Disclaimer

This Estimate is not intended for general circulation or publication, nor is it to be reproduced or used in whole or in part for any purpose other than that outlined in Section 1 hereof, nor may our Estimate be provided to any other person or entity, without our prior written permission in each

(12) The carrying amount of the Reporting Unit for annual goodwill impairment testing purposes is calculated as the sum of (a) current assets (excluding cash) net of current liabilities, (b) property and equipment and (c) intangible assets and goodwill.

specific instance. We shall not assume any responsibility or liability for losses occasioned to Car-Tel, its directors and Parent, or to any other parties as a result of the circulation, publication, reproduction or use of this report contrary to the foregoing restriction.

The financial and other operating and corporate information provided by Car-Tel and its representatives have been accepted by us — following our discussions and interviews and without further verification — as correctly reflecting, among other things, the business conditions, financial position and operating results of Car-Tel for the periods covered, except as may be noted herein.

We reserve the right to make revisions and/or to further support our conclusions, if we consider it to be necessary for any reason, such as facts existing at the Valuation Date that become known to us after our Estimate has been issued.

2.2 Assumptions and Limitations

We have assumed that no material changes have taken place in the operations and asset position of Car-Tel that have not been brought to our attention since the date of the financial information utilized by us. Management have been requested to bring to our attention any matters that would be significant to our Estimate in addition to those matters discussed herein.

We have not been requested to, and did not, solicit third-party indications of interest from marketplace participants in acquiring the Reporting Unit on a stand-alone basis, any of its tangible or intangible assets, or any of its common shares.

Our Estimate is provided as of the Valuation Date on the basis of securities markets and economic, business and financial conditions then prevailing, and the respective positions and prospects, financial and otherwise, of the Reporting Unit and the Parent, as reflected in the information and documents reviewed by us and as represented to us in our discussions with management.

The Estimate was prepared based on the financial information as reflected in the financial statements and other documents provided to us, reviewed by us, and discussed with management. In preparing the Estimate, we have relied upon and assumed, without independent verification, the completeness, accuracy and fair presentation of this information. Our conclusion is conditional upon such completeness, accuracy and fairness.

Public, industry and statistical information are from sources that we consider as being reliable. We make no representations as to the accuracy or completeness of such information, and, with your consent, have accepted the information without further verification. We disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting our Estimate that may come to our attention after the date hereof.

We considered, among other things, the projections prepared by management for the two fiscal years ending March 31, 2011, which are based on management's best estimate of future events and circumstances. The assumptions on which these projections are based are those which management believes are significant to such projections or are key factors upon which the financial results of Car-Tel depend. Some assumptions may not materialize and unanticipated events and circumstances (both favourable and unfavourable) may occur during the two years ending March 31, 2011. Therefore, the actual results to be achieved during this period may vary from what was initially established, and such variations may be material.

We have assumed, in addition to other assumptions made in the course of performing the Estimate, that, at the Valuation Date:

(i) The combined Federal and Quebec corporate tax rate for a non-Canadian controlled private corporation ("CCPC") in 2010, 2011, 2012 and thereafter are 29.9%, 28.4% and 26.9%, respectively;

(ii) There were no material changes in Car-Tel or the state of, or outlook for, the industry or the economy, which would have a significant impact on our Estimate;

(iii) There were no significant contingent assets or liabilities, unusual contractual obligations or substantial commitments, other than in the ordinary course of business, or litigation pending or threatened (other than may be noted herein), which may have an impact on our Estimate; and

(iv) There were no significant facts not disclosed herein with respect to the Reporting Unit, at the Valuation Date, which could reasonably be expected to materially affect our Estimate.

3. SCOPE OF REVIEW

In arriving at our Estimate, we reviewed and relied upon information and data gleaned from documents and information provided to us by management and/or public sources with respect to the Reporting Unit, its business, competition and the markets in which it operates, as set out herein below.

3.1 Financial and Corporate Documents

- Internal financial statements of Car-Tel for the fiscal year ended March 31, 2009, as prepared by management;
- Draft consolidated financial statements of Saratoga for the fiscal year ended March 31, 2009, as prepared by management;
- Grouping of the consolidated financial statements of Saratoga and its subsidiaries for the fiscal year ended March 31, 2009, as prepared by management;
- Internal financial statements of Car-Tel for the interim five-month period ended March 31, 2008, as prepared by management;

- Audited financial statements of Car-Tel for the three fiscal years ended October 31, 2007, as reported on by WSBG;
- Audited financial statements of Car-Tel for the two fiscal years ended October 31, 2004, as reported on by Samson, Bélair/Deloitte & Touche SENCRL (“Deloitte”);
- T2 and CO-17 Corporation Income Tax Returns for the 2009 taxation year of Car-Tel;
- Projections for the two-year period ending March 31, 2011 (the “Projection Period”), as prepared by management (the “Projections);
- Monthly “virtual products” sales report, by customer, for the twelve-month period ended March 31, 2009, as prepared by management;
- Monthly “virtual products” sales report, by customer, for the twelve-month period ended March 31, 2008, as prepared by management;
- Monthly “virtual products” sales report, by customer, for the twelve-month periods ended December 31, 2006 to 2008, as prepared by management;
- List of Employees of Car-Tel, as prepared by management; and
- Various schedules and analyses prepared by management.

3.2 Industry and Market Information

We have also consulted publicly-available information sources relating to the state of, and outlook for, the Canadian economy, financial markets, and the prepaid card industry at the Valuation Date, including:

- Bank of Canada *Review*;
- *Econoscope*, RBC Financial Group, Volume 33, Number 3 , March 2009;
- *Stocks, Bonds, Bills, and Inflation, 2009 Yearbook — Valuation Edition*, Morningstar, Inc. (Chicago: 2009);
- *Ibbotson Cost of Capital, 2008 Yearbook*, Morningstar, Inc. (Chicago: 2008);
- *Risk Premium Report 2009*, Duff & Phelps, LLC (Chicago);
- http://www.vendteksys.com/Investors/Investor%20factsheet.htm;
- http://www.blackhawknetwork.com/Default.aspx?tabid=204; and
- www.sedar.com.

3.3 Interviews

To augment our understanding of the Reporting Unit's operations, we held discussions with Mr. Richard Vallée, CA, Chief Financial Officer of Saratoga.

3.4 Letter of Representation

In addition, we have obtained a letter from Car-Tel's management, representing and warranting to us that:

(a) to the best of their knowledge, since the date the information was provided to us, there has been no material change, financial or otherwise, in the Reporting Unit not already disclosed, and there has been no change of any material fact of such a nature as to render the information untrue or misleading in any material respect;

(b) since the date that the information was provided to us, no material transactions have been entered into by the Reporting Unit, other than in the normal course of business;

(c) they have reviewed our Estimate in draft and have discussed same fully with us;

(d) they believe, to the best of their knowledge, that the Projections prepared by them and the underlying assumptions with respect thereto are fair, reasonable and achievable during the Projection Period;

(e) they are satisfied with our explanations of the valuation concepts and approaches adopted by us and as set out herein;

(f) they are not aware of any significant contingent assets or liabilities, unusual contractual obligations or substantial commitments, other than in the ordinary course of business, or litigation pending or threatened, which could affect our Estimate;

(g) they have no information or knowledge of any facts not disclosed in this report with respect to the fair value of the Reporting Unit at the Valuation Date, which could reasonably be expected to affect our Estimate; and

(h) they are not aware of any significant factors that bear on the fair value of the Reporting Unit at the Valuation Date, which we have not considered in reaching our Estimate.

4. THE ECONOMY

Our review of economic conditions that prevailed in Canada at, or proximate to, the Valuation Date may be summarized as follows:

4.1 Gross Domestic Product ("GDP")

GDP contracted by 0.6% in the first quarter of 2008, this was followed by a 0.6% rise and 1.3% rise in the second and third quarters of the year, respectively. GDP then drastically fell by 3.4% in the fourth quarter of 2008, leading to an annualized growth of only 0.5%. This annual growth was well below GDP growth targets which were set at the beginning of 2008. A contraction in the Canadian GDP was expected beyond 2008 as prices for commodities were falling; there was also a decrease in domestic income and tighter credit conditions, which will all contribute to lower consumer spending activities than have been seen in prior periods. The IMF had released its forecast for growth in real GDP, and was expecting only an increase of 0.5% in 2009.

4.2 Employment

The Canadian workforce saw a large slowdown during 2008 followed by record layoffs at the beginning of 2009. As a result of the economic crisis, in January 2009 129,000 jobs were lost, mainly full-time manufacturing positions. The unemployment rate hit 7.7% in February 2009. Even though the unemployment rate has been rising quickly over the past year, it remained below the historical average unemployment rate of 8.7%.

4.3 Housing Starts

Housing starts for the first two months of 2009 was an annualized 134,600 units. This was seen as a significant reduction as housing starts returned to above the 200,000 level in 2008, which is the level deemed to be significant by the industry. Starts also remained well below the recent highs of 2006, which were at 229,000 annually. Sales prices have also decreased dramatically, falling 13% from December 2007, when record highs were attained, to the December 2008 level.

4.4 Fiscal Stimulus

In October 2008, the Bank of Canada had cut the overnight lending by 75 basis points to 2.25%. Its actions were consistent with other central banks globally. At that time, the Bank of Canada also announced that its forecasts for inflation were lowered, as it had recently observed a substantial drop in energy prices. In November 2008, the Canadian government released a budget whose goal had been to avoid entering into a deficit position. The government was severally criticised for this, and in light of the weakening economy, announced that a new budget, that would stimulate the economy, would be released in January 2009. Interest rates were further slashed by another 75 basis points in December 2008, leading to an overnight lending rate of 1.50%.

The budget released in January 2009 provided fiscal stimulus equal to 1% of the Canadian GDP in 2009 and 2010, aimed at helping the economy recover from the economic downturn. The budget provided for initiatives valued at $33.5 billion to be spent between 2009 and 2011; the measures included a combination of spending initiatives, tax reductions, interest rate cuts, liquidity injections and other government initiatives. The overnight lending rate has been cut further, and during March 2009, it reached an extraordinarily low level of 0.50%. At the Valuation Date the rate remained at this level; as well, the Bank of Canada had committed to maintaining the rate at this level or even brining it lower, until the economy is able to “mitigate the downside risks to the inflation outlook”.

Table 1
SELECTED ECONOMIC STATISTICS — CANADA
(Annual % change, unless otherwise noted)

	Actual	Forecast	
	2008	**2009**	**2010**
Real GDP	0.5	-1.4	2.6
Consumer spending	3.0	-0.8	2.2
Business investment	0.0	-10.2	1.3
Government spending	3.4	2.5	3.0
Exports	-4.7	-7.9	3.0
Imports	0.8	-9.7	2.5
Core Consumer Price Index	1.7	1.3	1.5
Unemployment rate (%)	6.1	7.8	8.0
Housing starts (thousands)	211	155	173
Motor vehicle sales (millions)	1.68	1.31	1.44
Pre-tax corporate profit (% change)	6.4	-14.6	7.9
Five-year Government of Canada bonds (%)	1.69	2.50	3.25
Ten-year Government of Canada bonds (%)	2.69	2.60	3.35
Canadian dollar (per U.S. $)	1.23	1.25	1.15

SOURCE: *Econoscope*, RBC Financial Group, Volume 33, Number 3, March 2009.

5. THE INDUSTRY

The prepaid card industry had been growing steadily since the early 1990's in North America. The pioneering product of the prepaid cards was the prepaid phone card, which could be used at just about any touchtone telephone, as well as at pay phones. Such cards enabled consumers to make calls when away from home or office. Several other prepaid products appeared gradually and the prepaid card industry grew to several hundred billion dollars. The products offering expanded to:

- Prepaid long-distance calling;
- Prepaid residential telephone;
- Prepaid wireless airtime;

- Prepaid Hot Spot WiFi;
- Prepaid broadband residential internet;
- Prepaid Music downloads;
- Prepaid payphone cards;
- Prepaid debit and credit cards; and
- Gift cards.

These products were first introduced as “live” cards, or pre-activated cards. Such physical cards had a value like cash, had to be carried as inventory, and were prone to theft and other inherent security issues. The necessary control over the physical cards limited their potential merchandising.

The prepaid industry is moving away from live cards, as most of them were no longer offered by service providers or were expected to be discontinued in the near future. Innovative new software and POS terminals were developed for/by prepaid products suppliers to allow card activation by merchants. The technology is called Point of Sale Activation (“POSA”). Consumers bring the card of their choice to the cashier, who swipes it through a POSA terminal to activate or recharge it. POSA terminals can also dispense a printed voucher containing a PIN for prepaid wireless time or other prepaid products. The following charts illustrate the two processes:

PREPAID CARDS ACTIVATED BY MERCHANTS

Physical card swiped on POSA terminal by merchant	→	Activation or load data sent to distributor server in real-time	→	Transaction data sent in real-time to service provider by distributor server

PIN PROVIDED TO CUSTOMER BY MERCHANTS

Electronic PIN data from service provider loaded on distributor server	→	PIN distributed on demand in real-time to merchant POSA terminal	→	Customer receives prepaid products as voucher from POSA terminal

The shift away from live cards attracted an increasing number of merchants, as several advantages resulted from POSA technology:

- Little volume or financial commitments required from merchants;
- No shrinkage issue typically inherent in holding inventory of live cards;
- No inventory costs to merchant, as cards are activated only upon purchase;
- Better merchandising, as non-activated cards can be displayed anywhere without theft risk; and
- Simplicity of operation requiring only limited training.

Prepaid services have evolved into mainstream use as major telecommunication companies seek new growth opportunities. At the Valuation Date, the prepaid cellular (mobile) industry generated global revenues exceeding $100 billion per year and was growing at a rate of 30% annually[13].

(13) Source: www.vendteksys.com.

The industry was making a rapid transition to technology-based services. The number of POS terminals in the market was enabling the introduction of new products and services. New card-based applications, such as prepaid credit cards and gift cards, were providing additional markets to the prepaid card industry and a source of new revenues for merchants and distributors of prepaid products.

A Canadian[14] survey released by Blackhawk Network, a market leader in card-based financial solutions and the largest provider of third-party gift cards in the United States and Canada, reveals that three out of four Canadian adults have both received and given gift cards during 2007, and most of them do so for Christmas and holiday gifts (73%). The survey also revealed that 41% of Ontario resident received gift cards in 2007 while 17% of Quebec and British Columbia received gift cards over the same period.

6. CAR-TEL

6.1 Description of Car-Tel

Car-Tel operates in the distribution of prepaid products and in the management of point-of-sale ("POS") terminals, with operations in eastern Canada. At the Valuation Date, its customer list included approximately 2,779 merchants, which were located as follows:

- 2,314 merchants in Quebec;
- 385 merchants in Ontario;
- 29 merchants in Nova Scotia;
- 24 merchants in Newfoundland;

(14) http://www.blackhawknetwork.com/Default.aspx?tabid=203.

- 24 merchants in New Brunswick; and
- 3 merchants in Prince Edward Island.

Car-Tel had a workforce of 18 employees:

- 11 in sales and operations;
- 3 in IT and programming; and
- 4 in administration.

Founded in 2001, Car-Tel had grown steadily until 2006, when it encountered financial difficulties, which resulted in the restructuring of its operations and financing. The turnaround of Car-Tel was completed in 2007, with ongoing support from Saratoga.

Car-Tel offers a complete line of prepaid cards to its merchants. It acts in partnership with several leading cellular phone and long-distance service providers, including:

- Bell Canada;
- Bell Mobility;
- Telus Mobility;
- Telus Canada;
- Virgin Mobile;
- Fido; and
- Rogers,

and with several third-party gift card providers, some of the largest being:

- Blackhawk Network;
- Desjardins;
- Fanbox;
- Puretracks; and
- FidéliSoft.

The recently-introduced third-party gift card segment is expected to experience significant growth and, in addition to those partners listed hereinabove, Car-Tel is constantly negotiating with new partners. Car-Tel's distribution efforts are primarily directed towards gas stations, convenience stores, groceries and pharmacies.

Car-Tel holds a virtual inventory of personal identification numbers ("PINs") that it purchases from different cellular phone and long-distance service providers. These PINs are drawn from the virtual inventory by Car-Tel's merchants when they sell recharge vouchers to their customers. Third-party gift cards are activated by Car-Tel's merchants through Car-Tel's network, which routes all terminal activity to the appropriate processor (Desjardins for La Cage aux Sports, Blackhawk for Home Depot, etc.). Car-Tel's merchants use a single POS terminal to issue recharge vouchers used in prepaid services (such as cellular phones) or to activate third-party gift cards. The proceeds of sales, net of merchant margin, are charged to Car-Tel's merchants on a weekly basis. Car-Tel receives a commission on sales of third-party gift cards and realizes a margin on sales of prepaid cards (from the virtual PIN inventory it purchases) to merchants. Sales of physical live prepaid cards (cards that are pre-activated by the service provider) have been diminishing steadily and were discontinued by service providers in 2008. Additional revenues are generated through the leasing of terminals and from monthly fees charged to the lowest performing merchants of Car-Tel's network (i.e., should they not meet a specified monthly minimum level of sales after a six-month trial period).

Car-Tel maintains a group of field representatives who introduce new products distributed by Car-Tel to existing merchants and who create new business by working leads that are assigned to them. Master sales agreements with major banners are usually concluded by the Accounts Director or Luc Charlebois, President, and field representatives are then responsible for meeting with each of the banner stores to set up individual accounts. All sales representatives are paid a fixed salary.

6.2 Management

Car-Tel relies on Messrs. Luc Charlebois and Charbel Fraifer for the development of its business and for the management of its network and operations. Both have been working for Car-Tel since its early days.

6.3 Financial Results

For the fiscal year 2010 and 2011, the Reporting Unit is projecting gross revenues of \$57,351,245 and \$62,029,106, respectively and pre-tax earnings of \$247,364 and \$574,309, respectively. For fiscal 2009, it generated gross revenues of \$49,996,344 and pre-tax earnings of \$359,707. At the Valuation Date, the Reporting Unit had a current ratio of 0.66:1 and total assets of \$4,861,130.

7. THE ACQUISITION

On March 31, 2008 (the "Acquisition Date"), Saratoga acquired 100% of the issued shares of Car-Tel. The acquired net assets of Car-Tel included:

- Current Assets;
- Fixed Assets;
- License agreement;
- Trade name;
- Merchant agreements (customer relationships);
- Supplier agreements;
- Non-Competition Agreement;
- Goodwill;
- Future income tax asset;
- Current liabilities; and
- Long-term-liabilities.

The original shareholder of Car-Tel was Mr. Luc Charlebois, who held shares both personally and through his holding company, Les Entreprises Charlebois Moreau Inc.

The upfront consideration for the assets acquired at closing was 2,500,000 common shares of Saratoga having a quoted per-share market price of $0.40 at the Acquisition Date, yielding an implied total consideration (before the application of a blockage discount) of $1,000,000. The valuation for financial reporting purposes performed at the Acquisition Date considered a blockage discount — as the shares of Saratoga are held by a small number of investors, the share price is volatile and the low trading volume cannot accommodate the sudden sale of the shares issued in the Car-Tel transaction without causing a downward effect on the share price. This would imply that the consideration for the shares of Car-Tel was approximately $750,000 (i.e., $1,000,000 reduced by a 25% discount)

The estimated Fair Values, on the Acquisition Date of the net assets of Car-Tel, including goodwill, were as follows:

Current assets	
Cash	$ 29,217
Accounts receivable	2,570,801
Inventories	578,321
Future income tax asset	126,143
Sales taxes receivable	59,953
Prepaid expenses and sundry assets	42,615
	3,407,050
Capital assets	248,888
Future income tax asset	631,638
Total acquired tangible assets	4,287,576
Intangible assets	
Licence agreement with CGS Financial Technologies U.S.A.	64,583
Contractual customer relationships	1,680,000
Favourable supplier contract	130,000
Non-competition agreement	410,000
Total acquired intangible assets at Fair Value	2,284,583
Estimated Fair Value of total acquired assets	$ 6,572,159
Assumed liabilities	
Accounts payable and accrued liabilities	$ 3,785,955
Current maturity of long-term debt	334,955
	4,120,910
Long-term debt	2,453,600
	6,574,510
Estimated Fair Values of identifiable Net Assets acquired	(2,351)
Total acquisition cost	886,285
Implied goodwill (including workforce)	**$ 888,636**

At the Valuation Date, the intangible assets recorded in the financial statements of the Parent had been amortized and had the following balances:

- Contractual customer relationships: $1,120,000 ($1,680,000 at the Acquisition Date);
- Favourable supplier contract: nil ($130,000 at the Acquisition Date); and
- Non-competition agreement: $136,667 ($410,000 at the Acquisition Date).

Goodwill was recorded at $888,636 on the financial statements of the Parent at the Valuation Date, which is the same value that was recorded at the Acquisition Date.

8. IDENTIFICATION OF THE REPORTING UNIT

Paragraph.05(d) of Section 3062 of the *Handbook* defines a reporting unit as follows:

> "A reporting unit is the level of reporting at which goodwill is tested for impairment and is either an operating segment, or one level below (referred to as a component). A component of an operating segment is a reporting unit when the component constitutes a business for which discrete financial information is available and segment management regularly reviews the operating results of that component. (Segment management consists of one or more segment managers, as that term is defined in Section 1701.) However, two or more components of an operating segment are aggregated and deemed a single reporting unit when the components have similar economic characteristics. An operating segment is deemed to be a reporting unit when all of its components are similar, when none of its components is a reporting unit, or when it is comprised of only a single component."

The *Handbook* provides guidance with respect to the aggregation of components: "Two or more components of an operating segment are aggregated and deemed a single reporting unit when the components have similar economic characteristics."[15] Management has determined that there

(15) *Handbook,* Section 3062.05 (d).

was a single component within the Reporting Unit and that its main economic constituents are the service costs associated with providing third-party prepaid cards and related services, the office and general costs associated with office space and occupancy, and the provision of technology requirements that are generally limited to personal computers, servers and off-the-shelf software.

Management concluded that Car-Tel had a single operating segment (i.e., distributing third-party prepaid cards) for which discrete financial information was regularly produced and reviewed by management and should therefore be considered a reporting unit. Based on our review and analysis, we concur with management's assessment and therefore consider Car-Tel to be a Reporting Unit.

9. FINANCIAL REPORTING STANDARDS

9.1 Introduction and Background

Section 1100 of the *Handbook* establishes standards for financial reporting pursuant to GAAP. The primary sources of GAAP are defined as follows, in descending order of authority ("GAAP hierarchy"):

(i) *Handbook* Sections 1300-4470, including Appendices and Board Notices;

(ii) Accounting Guidelines, including Appendices and Board Notices;

(iii) Abstracts of Issues Discussed by the Emerging Issues Committee ("EIC"), including Appendices;

(iv) Background Information and Basis for Conclusions documents accompanying pronouncements described in (i) – (ii), including Appendices;

(v) Illustrative material of those pronouncements described in (i) – (iv); and

(vi) Implementation Guides authorized by the Board.[16]

Paragraph 3 of Section 1100 states that:

> " ... an entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions or events encountered by the entity".

In the event that the primary sources of GAAP do not address the accounting issue, or where " ... additional guidance is needed to apply a primary source to specific circumstances, an entity should adopt accounting policies and disclosures that are: (a) consistent with the primary sources of GAAP; and (b) developed through the exercise of professional judgment … ",[17] entities are encouraged to consult "pronouncements issued by bodies authorized to issue accounting standards in other jurisdictions … ".[18]

Handbook Section 1100 states:

> "In particular, accounting pronouncements published with the authority of the *US Financial Accounting Standards Board (FASB)*, or the International Accounting Standards Board (IASB), are often important sources to consult on matters not covered by primary sources of GAAP or to assist in applying a primary source of GAAP to specific circumstances.[19]

(16) CICA *Handbook*, Section 1100.02(c).

(17) Paragraph .04 of CICA *Handbook*, Section 1100.

(18) Paragraph .24 of CICA *Handbook*, Section 1100.

(19) Paragraph .24 of CICA *Handbook*, Section 1100.

> *... when a primary source of GAAP has been harmonized with, for example, a US or international pronouncement* [e.g., fair value measurement], *more detailed and fact-specific guidance in the corresponding US or international pronouncement generally satisfies the requirements of paragraph 1100.04*."[20] (Emphasis added.)

9.1.1 GAAP Applicable to Intangible Assets and Goodwill

As noted above, the Canadian standards are embodied in *Handbook* Sections 1581 and 3062, together with the relevant pronouncements of the EIC. The equivalent U.S. standards are promulgated by the FASB in SFAS 141, 142 and 157. As the said Canadian and U.S. standards have been harmonized, our comments refer to both standards and look to the U.S. standards for more detailed background information and the basis for the conclusions reached by the FASB.

10. FAIR VALUE MEASUREMENT METHODOLOGY

10.1 Fair Value Measurement Methodology

The fair value measurement methodology applied to the valuation of any asset can be broadly classified into one of the following three approaches: (1) the Market Approach, (2) the Income Approach and (3) the Asset-Based (Cost) Approach. In fair value measurement analysis for financial reporting under GAAP, all three approaches are considered and the approach(es) deemed most relevant will be adopted in the fair value measurement of the asset considering the GAAP hierarchy and fair value hierarchy described in Section 1.2 above.

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(20) Paragraph .25 of CICA *Handbook*, Section 1100.

10.2 Market Approach — General

The Market Approach is a general way of determining a value indication of a business, business ownership interest, security or intangible asset by using one or more methods that compare the subject to similar businesses, business ownership interests, securities or intangible assets that have been sold.[21]

The Market Approach requires observable prices and other information generated by actual transactions involving identical, similar or otherwise comparable assets or liabilities (including business enterprises). The estimate of fair value is based on the value indicated by those transactions. Such approach represents the second "level" of hierarchy for fair value measurements discussed in Section 1.2.

Where the asset being valued is a business, business ownership interest or a security, the following methods are considered:

10.2.1 Guideline Public Company ("GPC") Method — General

The GPC Method is a method whereby market Multiples are derived from market prices of stocks of companies that are engaged in the same or similar lines of business and that are actively-traded on a free and open market. Under this method, guideline company data are gathered in order to develop value measures (Valuation Ratios) that can be applied to the subject company's fundamental financial and other data and correlated in order to reach an indication of value for the issued shares of the subject company. This is effected by analyzing the prices of stocks of reasonably comparable publicly-traded companies that operate in the same industry as the company being appraised, as their stock prices most adequately reflect investors'

(21) *International Glossary of Business Valuation Terms*, June 2001, developed jointly by the American Institute of Certified Public Accountants, American Society of Appraisers, The Canadian Institute of Chartered Business Valuators, National Association of Certified Valuation Analysts and the Institute of Business Appraisers.

expectations of the return on an investment of similar risk *vis-à-vis* the subject company. To the extent that the riskiness of an investment in the subject company's common stock is different from that of the guideline companies, the valuator will make subjective adjustments to the market-based Valuation Ratios to reflect such differences.

10.2.2 Guideline Transactions Method — General

Under this method, Valuation Ratios are derived from open-market transactions of significant interests in companies engaged in the same or similar lines of business as the subject.

The factors considered in judging a reasonable basis for comparing the subject to similar businesses, business ownership interests, or securities that have been sold in the open market include:

- sufficient similarity of qualitative and quantitative investment characteristics;
- extent and verifiability of data known about the similar investment;
- whether or not the price of the similar investment was transacted in an arm's length transaction, as a result of a forced or distressed sale, or other fact situation that may not provide evidence of fair market value; and
- the relevance of market conditions existing at the transaction date and those at or proximate to the Valuation Date for purposes of the subject valuation.

10.2.3 Prior Transactions of Shares of the Subject Company — General

Another valuation method under the Market Approach includes the analysis of any prior transactions in the ownership of the subject company with a meaningful timeframe. In this regard, an analysis is made to determine, among other things, whether the transaction:

(a) was at arm's length;

(b) was the result of a forced or distressed sale (or purchase);

(c) represented a minority or control position;

(d) was pursuant to the terms of a buy/sell agreement or put option; and

(e) the market conditions at the time of the transaction were consistent with those at the Valuation Date with respect to the subject valuation.

10.3 Income Approach — General

The Income Approach is a general way of obtaining a value indication of a business (or its underlying assets), using one or more methods wherein a value is determined by converting anticipated benefits. This approach contemplates the continuation of business operations.

The Income Approach is adopted where the business being valued is earning a fair return on its capital employed and the notional purchaser wishes to acquire the future indicated earnings/cash flow stream generated by the enterprise. That is, the earnings value of a going concern is based upon the yield to an investor, at the desired Rate of Return on his or her investment, having regard to a number of "internal" and "external" factors relating to the future prospects of the business, the rates of return on alternative investments, the degree of risk involved, the liquidity of the investment, etc.

Anticipated economic benefits are converted to value using procedures, which consider expected growth trends and timing, the risk profile of the benefits stream and the time value of money. The conversion of the benefits stream to value normally requires the determination of a Capitalization Rate or Discount Rate (Rate of Return). In determining the appropriate rate, the valuator considers such factors as interest rates, rates of return anticipated by investors on alternative investments, risk characteristics of the anticipated benefits of the subject entity, etc.

Typically, the Rate of Return or Discount Rate used is consistent with the types of anticipated benefits used.[22]

The earning power of a viable going-concern is usually greater than the aggregate values of its individual tangible assets because of the value-in-use of both the intangibles[23] and the tangibles viewed together.

The more common methodologies, or techniques, applied under the Income Approach are:

(a) Capitalizing operating earnings or cash flow[24], applying either the Capitalization of Earnings Method or the Cash Flow Method, respectively;

(b) Discounting the future stream of economic benefits, applying either the Discounted Cash Flow ("DCF") Method or the Discounted Future Earnings ("DFE") Method; and

(c) Capitalizing gross revenues, applying the Multiple-of-Gross-Revenues Method[25].

10.3.1 Capitalization of Earnings Method — General

To determine the value of a business applying the Capitalization of Earnings Method, the reported earnings, usually for a representative period of preceding years (which may generally serve as a guide to future trends), are adjusted in respect of:

(22) For example, pre-tax rates of return are used with pre-tax benefits; common equity rates of return are used with common equity benefits and Net Cash Flow rates of return are used with Net Cash Flow benefits.

(23) Intangibles include goodwill, patents, licenses, copyrights, franchises, leaseholds, etc.

(24) Among the commonly-used measures of cash flow are included Net Cash Flow and EBITDA.

(25) In certain businesses, the purchaser focuses on the target's book of business (however, the price would be corroborated by one of the other methodologies).

- extraordinary, non-recurring and unusual items that would otherwise distort the estimate of future profits;
- non-arm's length expenses which are of an uneconomic nature (discretionary expenses);
- consistency with the operating conditions that are expected to prevail; and
- additions to, or reductions in, capital employed.

Where there is a definite trend in the sales patterns and adjusted earnings, the normalized earnings are generally weighted (in order to place more emphasis on the most recent or indicative years) to arrive at a likely trend of annual, future earnings. These adjusted results are then multiplied (capitalized) by a price-to-earnings Multiple (capitalization factor) in order to arrive at the Capitalized Earnings Value[26], or Going-Concern Value. The aggregate so arrived at represents the value of the entity as a whole, i.e., "corporate worth", as represented by all of its issued and outstanding shares (and other forms of capital, as appropriate), viewed *en bloc*.

10.3.2 Capitalization of Cash Flow ("CCF") Method — General

A variation of the Capitalization of Earnings Method of determining the Going-Concern Value of a business is the Capitalization of Cash Flow Method. Operating Cash Flow, derived from the elimination of non-cash items such as depreciation, amortization and deferred taxes, is substituted for earnings from operations and then further refined into "discretionary", "Net", or "Free" Cash Flow, which is then capitalized. This approach also assumes a minimum level of recurring (annual) capital reinvestment or ongoing capital maintenance, to sustain operations at existing levels (referred to as "Sustaining Capital Reinvestment" or "SCR"). Since a notional purchaser in the marketplace would be concerned with the cash in-flows and out-flows of a

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(26) Stated differently, the expected future earnings stream is converted into a capital sum at the commencement of the period based upon the rate of return desired by the hypothetical purchaser.

business, the Capitalization of Cash Flow Method can often be more reliable than the Capitalization of Earnings Method in valuing a going concern under the Income Approach, particularly when there are substantial non-cash expenses such as depreciation, amortization and deferred income taxes.

Where there is a definite trend in the subject's sales patterns and adjusted cash flows, its normalized (maintainable) cash flows are generally weighted (in order to place more emphasis on the most recent or indicative years) to arrive at a likely trend of annual, future (indicated) cash flow.

These adjusted results are then capitalized by a Price-to-Cash Flow Multiple in order to arrive at the Going-Concern Value of the business; added thereto are (a) the value of the Tax Shield on the depreciable fixed assets and (b) the value of any Redundant Assets.[27] The aggregate so arrived at represents the fair value of the entity as a whole, i.e., "corporate worth".

10.3.3 DCF Method — General

In situations where (a) future capital investments are required, (b) the specific timing of the revenues/cash in-flows and expenses/cash out-flows is particularly significant (for example, a new venture, expansion of capacity, significant change of management and/or financial structure, cessation or sale of a portion of a business) and/or (c) future expected results are either known or reasonably predictable, the DCF Method (or a variation thereof, such as the DFE Method, both being valuation techniques under the Income Approach) is generally appropriate.

Applying such method, projected future earnings or cash flows are discounted by the desired Rate of Return, which considers a number of internal and external factors relating to the business

(27) The value of Redundant Assets, if any, is aggregated, as it is assumed that a prudent vendor would either extract Redundant Assets from the company prior to the sale, or require compensation from the purchaser for the value thereof. Thus, "corporate worth" reflects the value of all underlying assets, tangible and intangible, that would enure to the hypothetical purchaser of the shares.

being valued, as well as the time-value of money. In effect, the Rate of Return considers the various risks attached to, and the opportunity costs of, acquiring the business.

Such method discounts all expected income or cash flows to the present, using a desired Rate of Return or Discount Rate (cost of capital). Such rate would consider the various risks attached to, and the opportunity costs of, acquiring the assets.

In addition, the residual, or "terminal", value of the business/assets at the end of the projection period is included in the calculation, as there is an assumption that the assets purchased will ultimately be disposed of (converted to cash). To the extent that the sales proceeds of such assets form all or part of the return of the initial purchase price, such proceeds are considered in the same manner as other income/cash in-flows received during the period, and would be discounted accordingly.

10.3.4 Development of Discount Rate — Weighted Average Cost of Capital ("WACC")

The WACC is the Discount Rate that is used to derive the present value of a business' future cash flows. It is the average Required Rate of Return of all of the entity's financing — equity, debt and preferred shares — weighted in proportion to the entity's total invested capital.

The formula for calculating the WACC is:

$$\mathbf{WACC = (K_e * W_e) + (K_d * W_d)}$$

Where:

K_e = Cost of equity
W_e = Equity weight (value of equity divided by invested capital)
K_d = After-tax cost of debt
W_d = Debt weight (value of interest-bearing debt divided by invested capital)

As described in the following subsection, we used what is generally referred to as a "Build-Up Method" to calculate the cost of equity. We considered the Capital Asset Pricing Model ("CAPM") for calculating the cost of equity, but due to an unreliable *beta*[28], the Build-Up Method (described in the following section of this report) was utilized.

10.3.5 Build-Up Method for Equity Component of Cost of Capital

The primary technique for developing an equity Discount Rate[29] (Rate of Return) to apply to a stream of indicated maintainable cash flows or earnings is the Build-Up Method. The Build-Up Method is based on the principle that a company's Discount Rate comprises a number of identifiable risk factors which, when added together, result in the total return required on the purchase of the business.

The Build-Up Method incorporates a multi-step process in "building up" the average market return for equity investments. The first step is to determine the Risk-Free Rate as at the Valuation Date. To this rate is added (a) the Equity Risk Premium that an equity investor would require in order to receive a market Rate of Return on equity, and (b) an investment-specific Risk Premium (or discount) relating to the risk perceived in the particular acquiree (including size).

As Discount Rates consider the "risk-free" Rate of Return, such as that on long-term benchmark Government of Canada bonds (3.57% at March 31, 2009), adjustments are made thereto for valuation purposes in respect of the various internal and external factors impacting the future prospects of the business. Respective weights are applied to each factor for purposes of arriving at an appropriate Rate of Return (Capitalization Multiple) applicable to the free cash flow of the company. That is, as price/net cash flow is a risk/reward ratio, we estimated the Rate of Return a

(28) *Beta* is a measure of systematic risk of a stock (risk that is common to all risky securities and cannot be eliminated through diversification); it is the tendency of a stock's price to correlate with changes in a specific index. *Beta* is a function of the relationship between the return on an individual security and the return on the market as measured by a broad market index such as the S&P/TSX.

(29) A similar technique is adopted to develop a capitalization rate (and, consequently, its related capitalization multiple).

notional purchaser of the company would require, considering the various factors bearing on the future prospects of the company (as of the Valuation Date).

In this regard, we note the following:

- ***Risk-Free Return (Rf)***. Yields on the Government of Canada long-term bond are used as the starting point for the Rate of Return on a risk-free security. Accordingly, we used the return on March 31, 2009 on long-term benchmark Government of Canada bonds of 3.57%.

- ***Equity Risk Premium (RP_m)***. The risk premium for the market and the risk premium for small stocks are calculated based upon figures provided in *Stocks, Bonds, Bills and Inflation,* 2009 Edition (Morningstar, Inc.). The risk premium for the market is calculated by subtracting the mean return for long-term government bonds from the mean return for shares of large public companies.

  We considered 4.04% for the 2009 Equity Risk Premium based on the *Stocks, Bonds, Bills, and Inflation 2009 Yearbook — Valuation Edition*, published by Morningstar, Inc., which reflects the Equity Risk Premium in Canada.

- ***Risk Premium for Small Size (RP_s).*** Various studies have provided strong evidence that the degree of risk and corresponding cost of equity capital increase with the decreasing size of the company. Studies show that this addition to the Equity Risk Premium is over and above the amount that would be warranted solely for the company's systematic risk (economic and other external factors). The Risk Premium is calculated by subtracting the mean return for large-company shares from the mean return for small company shares. We used a 7.42%[30] size premium with respect to the Reporting Unit.

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(30) We arrived at a 7.42% size premium using data gleaned from *Risk Premium Report 2009*, published by Duff & Phelps LLC.

- ***Company-specific (Unsystematic) Risk (RP_u)*** is the Risk Premium attributable to the specific company and is designed to account for additional risk factors that are "internal" to the company and possibly not reflected in the typical risk characteristics of the large group of companies from which the Equity Risk Premium and size premium were derived. Based on our analysis of the Reporting Unit, we applied a premium of 7.54% for company-specific risks. The Build-Up Model in valuation may be expressed by the following formula:

$$E(R_i) = R_f + RP_m + RP_s + RP_u$$

Where:

$E(R_i)$	=	Expected (market required) Rate of Return on security *i*
R_f	=	Rate of Return available on a risk-free security as of the Valuation Date
RP_m	=	General Equity Risk Premium for the "market"
RP_s	=	Risk Premium for small size
RP_u	=	Risk Premium attributable to the specific company or to the industry (the *u* stands for unsystematic risk)

10.4 Asset-Based (Cost) Approach — General

The Asset-Based (Cost) Approach is adopted where either (a) liquidation is contemplated because the business is not viable as an ongoing operation, (b) the nature of the business is such that asset values constitute the prime determinant of corporate worth (e.g., vacant land, a portfolio of real estate or marketable securities, etc.), or (c) there are no indicated earnings/cash flows to be capitalized.

If consideration of all relevant facts establishes that the Asset-Based (Cost) Approach is applicable, the method to be employed will be under a going-concern scenario ("Adjusted Balance Sheet Method") or liquidation scenario (on either a forced or orderly basis), depending on the facts.

In applying the Adjusted Balance Sheet Method, each asset and liability on the balance sheet is written up or down, as the case may be, to its respective current or fair value as of the Valuation Date, on a going-concern (as opposed to liquidation) basis. Corporate income taxes relating to the above adjustments are notionally deducted (or added) to arrive at adjusted shareholders' equity on a net basis.

The Asset-Based Approach is not adopted as the sole appraisal approach in appraising a company as a going-concern (unless it is customarily used by buyers and sellers).

10.5 Combination of Approaches

In some circumstances, a composite figure is determined (based upon the three valuation approaches outlined above) where the values calculated under each method are weighted and an average is taken. While there is no precise formula for determining the relative weights to be assigned to each of the three approaches, the results are usually weighted according to the reliability and significance of each, if and when this method is considered appropriate.

10.6 Valuation Methodology Considered and/or Adopted to Value the Reporting Unit

Having considered the generally accepted approaches to valuation, as well as industry trends and the documents and information noted in Section 3, **SCOPE OF REVIEW** and, based on our discussions and interviews with management, we adopted the Income Approach to value the Reporting Unit. Adopting this approach, we applied the DCF Method in measuring the fair value of the Reporting Unit.

Accordingly, our valuation involved the following steps:

(a) reviewing the Projections with management, including the underlying assumptions and calculations on which they were based;

(b) adjusting projected (accounting) EBITDA as per the Projections for each of the years of the Projection Period by deducting (i) income taxes (considering available loss carryforwards), (ii) estimated changes in working capital and (iii) estimated required annual capital expenditures to arrive at Invested Capital Net Cash Flow;

(c) developing an appropriate Discount Rate to apply to (i.e., present-value) the Invested Capital Cash Flow for each of the years in the Projection Period arrived at in (b), considering the internal and external factors impacting Car-Tel, including rates of return on alternative investments, the degree of risk attached in achieving the indicated level of Invested Capital Net Cash Flow, future prospects, etc.;

(d) determining the present value of the Invested Capital Net Cash Flow, as of the Valuation Date, for each of the years in the Projection Period arrived at in (b) by applying the Discount Rate developed in (c);

(e) estimating the residual (or terminal) value of Car-Tel at the end of the Projection Period (March 31, 2011) by capitalizing the 2011 Invested Capital Net Cash Flow by an appropriate Rate of Return. The Capitalization Rate considered the internal and external factors impacting Car-Tel, as referred to in (c) above. The capitalized terminal-year Invested Capital Net Cash Flow of the Companies was then discounted back to the Valuation Date at the Discount Rate in (c); and

(f) aggregating, with the present value of the Invested Capital Net Cash Flow in (d), the present value of the residual value of the Companies in (e), the present value of non-capital loss carryforwards available beyond the Projection Period and the present value of the Tax Shield[31] on depreciable capital assets, which yielded the value of the Reporting Unit.

(31) Defined in Appendix A, Section A.29.

We also considered the Market Approach, applying the Guideline Transactions Method and the GPC Method, to corroborate our Estimate of the fair value of the Reporting Unit arrived at by applying the DCF Method.

However, for reasons discussed in Sections 12.2.1 and 12.2.2 below, we could not use the Market Approach to corroborate our conclusions under the DCF Method and therefore solely relied on the DCF Method to support our conclusion.

10.7 Approaches Considered But Rejected

We did not adopt the Asset-Based (Cost) Approach, because the Reporting Unit was operating an active business that, at the Valuation Date, was expected to generate an adequate return on its Invested Capital in the near future. A notional purchaser of the business would consider the prime determinant of value to be the potential future earnings and cash flows to be generated from operations. In the circumstances, the Income Approach was considered by us to be the appropriate methodology.

11. STEP ONE OF IMPAIRMENT ANALYSIS

As required by paragraph 27(a) of Section 3062 of the *Handbook*, our analysis began by our comparing the fair value of the Reporting Unit to its carrying amount, in order to assess whether there was any potential impairment.

11.1 Carrying Amount Determination

In order to perform Step One, we commenced by determining the carrying amount of the Reporting Unit. We consulted management as to a possible adjustment to the carrying amount for impairment loss that could have been required to be recognized *vis-à-vis* other intangible assets (Section 3062) and long-lived assets (Section 3063), as required by paragraphs 18 and 30 of Section 3062.

Based on our discussions with management, there were no events or changes in circumstances indicating that the carrying amount of long-lived assets could be unrecoverable at the Valuation Date. Management also estimated that the book values of the tangible assets approximated their fair values. We therefore used the carrying amount of the Reporting Unit, as presented on the Balance Sheet as at March 31, 2009, of $2,922,000[32].

12. VALUATION OF THE REPORTING UNIT

12.1 Primary Valuation Methodology — Income Approach

12.1.1 Invested Capital Net Cash Flow

In determining Car-Tel's Invested Capital Net Cash Flow for valuation purposes, we reviewed and analyzed Car-Tel's historical financial statements, the Projections, as well as the other documents referred to in Section 3, **Scope of Our Review**. We also obtained information and explanations from management with respect to past and future operations, viewed as of the Valuation Date.

As noted on Section 10.6, to determine the Invested Capital Net Cash Flow for valuation purposes during the Projection Period, we commenced with Car-Tel's EBITDA (Schedule 5), from which we:

(32) *Supra,* footnote 12.

(a) deducted estimated income taxes at the following rates: 29.9% in 2010 and 28.4% in 2011,[33] based on the assumption that Car-Tel would not be unable to claim the Small Business Deduction pursuant to Section 125 of the *Income Tax Act* (the “Act”);

(b) added estimated income tax savings resulting from the application of available non-capital loss carryforwards to 2010 and 2011 projected EBITDA;

(c) made an adjustment for estimated working capital requirements; and

(d) deducted estimated annual capital expenditures, net of Tax Shield (Schedule 2.1).

This yielded Invested Capital Net Cash Flow in each of the years of the Projection Period (Schedule 2).

12.1.1.1 Working Capital Requirements

We estimated Working Capital to increase from its 2009 level of \$(1,135,884) to \$(892,305) in 2010 and to further decrease to \$(1,051,956) in 2011, according to requirements as per the forecasted balances sheets (Schedule 6) during the Projection Period. Working Capital is expected to be relatively stable beyond the Projection Period.

12.1.1.2 Sustaining Capital Reinvestment

Based on its budget, Car-Tel is expected to make capital expenditures of \$90,000 in 2010 and annually thereafter, which amount to \$76,200 in 2010, \$76,900 in 2011 and \$77,600 thereafter, net of related Tax Shield (Schedule 2.1).

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(33) Based on the promulgated income tax rates at the Valuation Date.

12.1.2 Discount Rate

In developing the Discount Rate, we applied the Build-Up Method (outlined in Section 10.3.5).

12.1.2.1 Internal and External Factors

An acceptable Rate of Return will change with time and situation. However, the factors to be considered in the determination thereof are generally constant and include a number of internal and external factors having a bearing on the subject business.

- *Internal Factors*

  These relate to the particular business being valued and included the following considerations with respect to the Reporting Unit:

  - Projection risk;
  - Dependence on key personnel;
  - Liquidity and leverage;
  - Dependence on major customers and suppliers; and
  - Dependence on IT systems.

- *External Factors*

  These relate to the external (non-controllable) forces that impact the business and, in the case of the Reporting Unit, included:

- General business conditions and economic cycles expected to prevail during the Projection Period;
- Competition within the industry outside of Quebec; and
- Risks related to privacy and security breaches.

12.1.2.2 Build-Up Method

The Build-Up Method is based on the principle that an entity's Discount Rate, or Capitalization Multiple (Capitalization Rate), comprises a number of identifiable risk/return factors which, when added together, result in the total return a prudent, informed, uncompelled investor would require on the purchase of the subject entity.

The process of "building up" the average market return is generally a multi-step process. The first step is to determine an average equity market Rate of Return, comprising a Risk-Free Rate (such as that on long-term benchmark Government of Canada bonds) as of the Valuation Date, which was 3.57%, and a Risk Premium that an average equity investor would demand above the Risk-Free Rate, i.e., an Equity Risk Premium, which, at the Valuation Date, was estimated at 4.04%. Once this average market return on equity is calculated, the ensuing steps are to add or subtract increments in respect of the differences in risk factors between (a) the business being valued, including (i) the size of the subject business, and (ii) company-specific risk factors (Section 12.1.2.1) affecting the risk-profile of the earnings or cash flow stream, and (b) publicly-traded companies from which the Equity Risk Premium was derived.

12.1.2.3 Discount Rate (WACC) and Capitalization Rate

As explained in Section 10.3.4, the WACC represents a combined Rate of Return for the equity and debt components of invested capital.

Based on our analysis of (a) the risk factors in Section 12.1.2.1 and applying the Build-Up Method in Section 12.1.2.2, we concluded that a notional purchaser would require an after-tax equity Rate of Return between 22.24% and 24.58% (midpoint: 23.41%). Combining this equity Rate of Return with the Reporting Unit's estimated after-tax debt financing rate of 8.82%, and applying an industry debt/equity weighting of 5%/95%, resulted in a WACC in the range of 22.32% to 22.77%. After considering a perpetual growth factor of 3%, we arrived at a Capitalization Rate in the range of 18.79% to 19.17% (midpoint: 18.98%).

12.1.3 Present-Value Summary

Applying Discount Rates of 22.32% to 22.77% to the Invested Capital Net Cash Flow for the 2010 and 2011 fiscal years, yielded the present value thereof, which was in the range of $1,286,000 to $1,291,000 (Schedule 2).

12.1.4 Residual (Terminal) Value

The DCF Method also considers the present value (as of the Valuation Date) of the residual (terminal) value of Car-Tel at the end of the Projection Period. To determine the residual value, we estimated the value of Car-Tel as at March 31, 2011. We used projected EBITDA for 2011 of $1,013,786 (Schedule 3), from which we deducted income taxes of $272,708 and SCR, net of Tax Shield, of $77,600, arriving at Invested Capital Net Cash Flow of $663,000 for the terminal year (Schedule 3).

12.1.4.1 Capitalization Rate, Terminal Year

In developing the Capitalization Rate (or Price-to-Invested Capital Net Cash Flow Multiple) to apply to the projected Invested Capital Net Cash Flow for the terminal year (2011), we considered the risk factors in Section 12.1.2.1 as well as the rates of return on alternative investments (Section 4).

Based on our review and analysis of the factors referred to above and applying the Build-Up Method in Section 10.3.5, we developed a Capitalization Rate of 18.79% to 19.17% (representing Price-to-Invested Capital Net Cash Flow Multiples of 5.22 to 5.32) to apply to 2011's Invested Capital Net Cash Flow.

12.1.4.2 Summary

Applying Multiples of 5.22 to 5.32 to 2011 Invested Capital Net Cash Flow of $663,000 (Schedule 3) yielded the Capitalized Invested Capital Net Cash Flow value of Car-Tel at the end of the Projection Period (December 31, 2011), to which we applied present-value (discount) factors of 22.32% to 22.77%, resulting in a residual (terminal) value range for Car-Tel as of the Valuation Date of $2,543,000 to $2,609,000 (Schedule 3).

12.1.5 Tax Benefit resulting from Loss Carryforwards

We estimated that at the end of the Projection Period, Car-Tel would have loss carryforwards[34] amounting to $260,238 at the federal level (which were not considered in the calculation of Car-Tel's residual value in Section 12.1.4 above) that could be applied against Car-Tel's 2012 taxable income ($62,919 at the Quebec level). This would result in combined tax savings of

(34) Non-capital losses within the meaning of subsection 111(8) of the Income Tax Act.

approximately $46,523 (Schedule 2.2) using the federal tax rate of 15.00% (and the Quebec tax rate of 11.40%) that will be applicable to Car-Tel's taxable income in 2012. We calculated the present value of the 2012 tax savings of $46,523 to be approximately $28,000 at the Valuation Date.

12.1.6 Tax Shield

We considered that the Reporting Unit would be able to claim capital cost allowance on its undepreciated capital cost pools. Accordingly, we calculated the Tax Shield as a component for inclusion in the Reporting Unit's fair value. We calculated the estimated Tax Shield to be in the range of $149,000 to $150,000 (Schedule 4).

12.1.7 Fair Value of Reporting Unit

To the present value of the Invested Capital Net Cash Flow (Section 12.1.3), we added (a) the present value of the residual value of Car-Tel at the end of the Projection Period (Section 12.1.4), (b) the tax benefit resulting from loss carryforwards (Section 12.1.5) and (c) the Tax Shield (Section 12.1.6), which yielded the estimated fair value of the Reporting Unit, $4,006,000 to $4,078,000 (Schedule 1).

12.2 Corroborative Valuation Methodology — Market Approach

12.2.1 Guideline Transactions Method

Market transactions in businesses, business ownership interests or securities may provide objective, empirical data for developing Valuation Ratios to apply in the valuation of a business. In seeking meaningful, empirical data for purposes of valuing the Reporting Unit, we reviewed a number of open-market transactions in the prepaid-cards and payment processing industries. We were able to identify six significant transactions for which meaningful pricing data were available, with respect to companies engaged in the same or similar lines of business as the Reporting Unit proximate to the Valuation Date (Schedule 9).

Upon further analysis, we concluded that the targets involved in those transactions were not directly comparable to Car-Tel as they were for the most part involved in payment processing as opposed to distribution of third-party prepaid cards. The profitability margin is much higher in the payment processing industry (with EBITDA-to-Revenues margins ranging from 13.20% to 24.90% for the four largest target compared to 1.25% for Car-Tel in 2009, which might in part be explained by application of different accounting methods, i.e., reporting revenues *gross* versus *net*), which rendered Price-to-Revenues or Price-to-EBITDA Valuation Ratios of Guideline Transactions meaningless for purpose of estimating the value of Car-Tel. We therefore rejected the Guideline Transaction Method as a corroborative valuation methodology.

12.2.2 GPC Method

Valuation Ratios can also be developed from comparable, publicly-held corporations ("guideline companies"), to the extent that sufficient data are available. Guideline companies provide a reasonable basis for comparison to the investment characteristics of the company being valued. Ideal guideline companies are in the same industry as the subject company and have an underlying similarity in terms of relevant investment characteristics such as markets, products, growth, cyclical variability, and other salient factors.

A thorough, objective search for guideline public companies is required to establish the credibility of the analysis, and must include criteria for screening and selecting guideline public companies.

In using guideline companies, adjustments to the respective financial data of the subject company and the guideline companies are considered, in order to minimize any significant differences in accounting treatment. Unusual and non-recurring items are accordingly analyzed and adjusted as appropriate. A comparative analysis of the qualitative and quantitative similarities and differences between the guideline companies and the subject company is made to assess the investment attributes of the subject company relative to the guideline companies. If appropriate, adjustments for dissimilarities are also made with respect to:

- Degree of control;
- Degree of marketability and liquidity;
- Strategic- or investment-value considerations;
- Size; depth of management; diversification of markets, products and services; and
- Relative growth and risk.

12.2.2.1 Guideline Companies Identified

In determining the fair value of the Reporting Unit, we examined relevant historical and current financial and operating results of selected publicly-traded companies distributing third-party prepaid cards ("Guideline Companies") that were considered reasonably "comparable" to the Reporting Unit. These were chosen based on the research we conducted, discussions with management, and our review of relevant material describing the nature of the respective businesses of each of the firms included in the population of guideline company "candidates" we considered.

The following publicly-traded companies were selected by us as Guideline Companies for purposes of our valuation:

12.2.2.1.1 SelectCore Ltd.

SelectCore Ltd. ("SelectCore") is a Canadian publicly-traded company, similar in size to Car-Tel. SelectCore is a prepaid telecommunications distributor and service provider, with headquarters in the Windsor area, Ontario. SelectCore's current product and service offerings across Canada include:

- Prepaid residential telephone;
- Prepaid long distance;
- Prepaid broadband residential Internet; and
- Prepaid wireless.

SelectCore's offerings are marketed through private-label partnerships as well as a nation-wide distribution channel of thousands of retail locations throughout Canada, primarily in Ontario, Quebec, British Columbia and Alberta.

SelectCore also has long-term relationships with Canada's top telecom carriers in addition to an extensive distribution channel consisting of thousands of independent retailers across the country. It has proprietary technology for POSA applications and is a switch-based provider of prepaid PINs.

12.2.2.1.2 DataWave Systems Inc.

DataWave Systems Inc. ("DataWave") was a publicly-traded company that was acquired on January 5, 2007 by InComm Holdings, Inc. ("InComm") in an all-cash merger transaction valued at approximately $36 million[35]. DataWave's product and service offerings across the United

(35) We did not consider this transaction in Section 12.2.1 above as we concluded that (a) it was dated and (b) it occurred under significantly different market conditions.

States and Canada include cash cards, prepaid debit and credit cards, prepaid phone cards and prepaid wireless time that are available at various points of sale.

12.2.2.1.3 VendTek Systems Inc.

VendTek Systems Inc. ("Vendtek") is a Canadian publicly-traded company that has been in operations since 1988. It provides automated transaction systems software to its customers, which are located in Canada, the U.S., Europe, Asia and the Middle East. It is also known for having the largest electronic prepaid services network in Canada. Vendtek services over 15,000 merchants. Vendtek's headquarters are located in British Columbia; it also has a sales office in China.

Vendtek's system is run on a sophisticated software package, known as eFresh. The software is designed to allow retailers to see products electronically more efficiently by allowing cards to be activated and reloaded over a secure network.

12.2.2.2 Companies Considered, But Rejected, as Guideline Companies

Based on our review of documents and information available to us, we eliminated from the "population" of potential guideline-company candidates, those candidates having the following characteristics:

- Companies that are privately owned and those for which no financial information was publicly-available; and/or
- Operations not primarily located in Canada; and/or
- Companies deemed to operate in different lines of business.

The following candidates were not considered to be Guideline Companies, as we do not consider them to provide meaningful data to assist us in developing Valuation Ratios for use in measuring the fair value of Car-Tel:

Table 2

COMPANIES CONSIDERED, BUT REJECTED, AS GUIDELINE COMPANIES

Company	Reason for Rejection
InComm	Acquired by First Data Corp.
Ezipin Canada Inc.	Private company
The Group of Gold Line	Private company
PayLinx Financial Corporation	Interac and debit cards
On Track Innovations, Ltd. (OTI)	Too diversified, geographically and in services provided
NCR Corporation	ATM services
Gemalto N.V.	Digital security
Diebold, Incorporated	ATM supplier
Wincor Nixdorf International GmbH	POS terminals and ATMs
Oberthur Card Systems S.A.	Security and services and printing
Cardtronics, Inc.	ATM owner and operator
TRM Corp.	ATMs
Global Axcess Corp.	ATM services
Giesecke & Devrient GmbH	Too diversified by industry

12.2.2.3 Valuation Multiples

With respect to the Guideline Companies in Section 12.2.2.1, we could not develop meaningful Residual Market Capitalization-to-EBITDA multiples as they (a) had marginal or negative EBITDA or (b) were facing financial and operating difficulties which resulted in missing filing deadlines and unavailable data at the Valuation Date. Applying Valuation Ratios derived from limited data or meaningfulness to Car-Tel's parameters would result in valuation inferences that we do not believe would provide insight and be a useful indicator for developing values *vis-à-vis* Car-Tel.

12.2.2.4 Unreliability of Valuation Multiples

During the quarter ended at the Valuation Date, the share prices of the Guideline Companies had experienced extreme price volatility and low trading (Vendtek's shares were not traded after February 10, 2009) as a result of the general decline in the stock markets in what was characterized as a "global financial crisis". This had a significant downward impact on trading multiples, resulting in the observed volatility during that quarter. The Guideline Companies were likely priced based on forward multiples; however, as we did not have access to forward-looking or future-oriented financial data to derive forward multiples, we were unable to develop such multiples as part of our valuation analysis.

Considering the foregoing, as well as our concern regarding the use of market prices because of their limited meaningfulness under stock market conditions prevailing during the few months immediately preceding the Valuation Date, we did not apply the GPC Method. We were concerned about the impact of wild fluctuations in the financial markets, dividends being reduced or eliminated by major corporations, dramatically reduced liquidity in the marketplace, etc. These and other areas involving uncertainty and instability impacted the market such that observed share prices would not provide representative values of the Guideline Companies. We believe that the observed Valuation Multiples (being raw-data mathematical relationships) are not reliable and could not be meaningfully applied to Car-Tel, especially in light of its projected stable growth.

13. CONCLUSION

Based on our analysis as described above, we conclude that the estimated fair value of the Reporting Unit at the Valuation Date was in the range of $4,006,000 to $4,078,000. As the carrying amount is $2,922,000[36] there is no indication as at March 31, 2009 of a requirement to

(36) *Supra*, footnote 12.

perform Step Two of the annual goodwill impairment test pursuant to Section 3062 of the *Handbook*.

We trust that the foregoing will be of assistance to you. We remain available to discuss our Estimate with you at your convenience.

Yours very truly,

WISE, BLACKMAN LLP

Per: Richard M. Wise, FCA, CA•IFA, FCBV, FASA, MCBA, CVA

Per: Jean-Philippe Langevin, CA, CFA

Schedule 1

DISTRIBUTIONS CAR-TEL INC.

VALUATION SUMMARY

AS AT MARCH 31, 2009

	Range	
	High	**Low**
Present value of Invested Capital Net Cash Flow (Schedule 2)	$ 1,291,000	$ 1,286,000
Present value of Residual Value (Schedule 3)	2,609,000	2,543,000
Present value of residual non-capital loss carryforwards	28,000	28,000
Tax Shield on depreciable capital assets (Schedule 4)	150,000	149,000
Fair Value of Reporting Unit (rounded)	**$ 4,078,000**	**$ 4,006,000**

Midpoint	**(A)**	**$ 4,042,000**
Carrying Value of Reporting Unit		
Total Assets (Schedule 7)		$ 4,861,130
PLUS: Contractual customer relationships		1,120,000
Non-competition agreement		136,667
Goodwill		888,636
LESS: Cash (Schedule 7)		(56,821)
Accounts payable and accrued liabilities (Schedule 7)		(4,027,722)
	(B)	**$ 2,922,000**
Excess of Fair Value over Carrying Value	**(A) - (B)**	**$ 1,120,000**

NOTE: This schedule forms part of, and should be read in conjunction with, the accompanying report.

Schedule 2

DISTRIBUTIONS CAR-TEL INC.

INVESTED CAPITAL NET CASH FLOW

FOR THE YEARS ENDING MARCH 31

			2010	2011
EBITDA (Schedule 5)			$ 851,072	$ 1,013,786
LESS:	Estimated income taxes @		29.90%	28.40%
			(254,471)	(287,915)
ADD:	Tax savings from non-capital loss carryforwards (Schedule 2.2)		254,471	287,915
After-tax Invested Capital Operating Cash Flow before adjustments			851,072	1,013,786
LESS:	Working capital adjustment		(243,579)	159,651
	Estimated sustaining capital reinvestment (net of Tax Shield - Schedule 2.1)		(76,200)	(76,900)
Invested Capital Net Cash Flow			531,293	1,096,537
Discount rate @		22.32%	0.9042	0.7392
Present value of Invested Capital			480,376	810,523
Total (rounded)			**$ 1,291,000**	
Discount rate @		22.77%	0.9025	0.7351
Present value of Invested Capital			479,493	806,062
Total (rounded)			**$ 1,286,000**	

NOTE: This schedule forms part of, and should be read in conjunction with, the accompanying report.

Schedule 2.1

DISTRIBUTIONS CAR-TEL INC.

SUSTAINING CAPITAL REINVESTMENT

FOR THE YEARS ENDING

	2010	2011	2012 & After
Estimated capital expenditure required per management estimate	$ 90,000	$ 90,000	$ 90,000
LESS: Tax Shield thereon *	(13,800)	(13,100)	(12,400)
Estimated sustaining capital reinvestment (net of Tax Shield)	**$ 76,200**	**$ 76,900**	**$ 77,600**

* Tax shield: $\dfrac{\text{SCR} \times \text{Tax Rate} \times \text{CCA Rate}}{\text{CCA Rate} + \text{Discount Rate}} \times \left[1 - \dfrac{\text{Discount Rate}}{2 \times (1 + \text{Discount Rate})}\right]$

NOTE: This schedule forms part of, and should be read in conjunction with, the accompanying report.

Schedule 2.2

DISTRIBUTIONS CAR-TEL INC.

NON-CAPITAL LOSS CARRYFORWARDS

AS AT MARCH 31, 2009

	2009*		Allocation of Income Tax Savings 2010	2011	2012
Projected EBITDA			$ 851,072	$ 1,013,786	$ 1,013,786
Non-capital loss carried forward		(A)	(851,072)	(1,013,786)	(260,238)
Balance of non-capital loss carryforwards - Federal	$ 2,125,096		1,274,024	260,238	-
Total federal income tax savings (A * income tax rate)		(B)	**$ 153,193**	**$ 167,275**	**$ 39,036**

	2009*		Allocation of Income Tax Savings 2010	2011	2012
Projected EBITDA			$ 851,072	$ 1,013,786	$ 1,013,786
Non-capital loss carried forward		(C)	(851,072)	(1,013,786)	(62,919)
Balance of non-capital loss carryforwards - Quebec	$ 1,927,777		1,076,705	62,919	-
Total Quebec income tax savings (C * income tax rate)		**(D)**	**$ 101,278**	**$ 120,641**	**$ 7,487**
Total combined income tax savings (B + D)			**$ 254,471**	**$ 287,915**	**$ 46,523**

* As per Car-Tel's corporate tax returns for the year ended March 31, 2009.

NOTE: This schedule forms part of, and should be read in conjunction with, the accompanying report.

Schedule 3

DISTRIBUTIONS CAR-TEL INC.

RESIDUAL VALUE

AS AT MARCH 31, 2009

EBITDA — terminal year (Schedule 2)	$ 1,013,786
LESS: Estimated income taxes @ 26.90%	(272,708)
Adjusted after-tax Invested Capital Operating Cash Flow before SCR	741,078
LESS: Estimated sustaining capital reinvestment (net of Tax Shield - Schedule 2.1)	(77,600)
Invested Capital Net Cash Flow (rounded)	$ 663,000

	Range	
	High	Low
Capitalized at:		
18.79% (5.32 times)	$ 3,528,759	$ -
19.17% (5.22 times)	-	3,458,883
Residual value as at end of March 31, 2011 (rounded)	3,529,000	3,459,000
Discounted at		
22.32%	2,608,520	-
22.77%	-	2,542,704
Residual value as at March 31, 2009 (rounded)	**$ 2,609,000**	**$ 2,543,000**

NOTE: This schedule forms part of, and should be read in conjunction with, the accompanying report.

Schedule 4

DISTRIBUTIONS CAR-TEL INC.

TAX SHIELD

AS AT MARCH 31, 2009

Assets	CCA Class	UCC Pool**	CCA Rate	Tax Rate	Tax Shield* 22.32%	Tax Shield* 22.77%
Machinery, equipment and furniture	8	88,460	20%	29.90%	12,499	12,367
Equipment	10	14,928	30%	29.90%	2,559	2,537
Rolling stock	10	11,236	30%	29.90%	1,926	1,910
Computer software	12	-	100%	29.90%	-	-
Machinery	43	764,452	30%	29.90%	131,056	129,936
Computer equipment	45	6,305	45%	29.90%	1,260	1,252
Computer equipment	50	3,442	55%	29.90%	732	728
			rounded		**$ 150,000**	**$ 149,000**

* Tax Shield on UCC Pool: $\dfrac{\text{UCC} \times \text{CCA Rate} \times \text{Tax Rate}}{\text{Rate of Return} + \text{CCA Rate}}$

** Based on 2009 federal income tax return.

NOTE: This schedule forms part of, and should be read in conjunction with, the accompanying report.

Schedule 5

CALYX TRANSPORTATION GROUP INC.

PROJECTED INCOME STATEMENT

AS AT MARCH 31

	Forecast	
	2010	**2011**
Sales	$ 57,755,534	$ 62,466,371
Volume discounts to majors	(404,289)	(437,265)
Net Sales	57,351,245	62,029,106
Cost of goods sold	54,727,809	59,184,157
Cash discounts on purchases	(629,649)	(680,920)
Volume Rebate Bell Canada LD	(80,823)	(88,651)
Net cost of goods sold	54,017,337	58,414,586
Gross Margin	3,333,907	3,614,520
SG&A (Schedule 5.1)	2,482,835	2,600,734
EBITDA	851,072	1,013,786
Depreciation & amortization	289,514	209,540
Financial expenses (Schedule 5.1)	314,194	229,937
	603,708	439,477
Income before income taxes	$ 247,364	$ 574,309

SOURCE: The Projections.

Schedule 5.1

CALYX TRANSPORTATION GROUP INC.

PROJECTED INCOME STATEMENT

AS AT MARCH 31

	Forecast	
	2010	**2011**
SG&A		
Salaries	$ 731,138	$ 742,988
Commissions/bonus	211,640	222,300
Temporary salaries	39,000	40,950
Fringe benefits	73,114	74,299
Training	7,311	7,430
Sub-total employee related expenses	1,062,203	1,087,967
Telecommunication expense	57,200	59,800
Switch fees	664,189	718,363
Meal & entertainment	23,400	23,400
Travelling expenses	197,600	202,800
Computer expenses	9,100	9,100
Rent expenses-POSA	60,060	101,660
Office expenses	87,100	89,700
Operating leases - office	20,800	
Postal expenses	52,000	57,200
Rent expense	56,784	56,784
Insurance expense (D & O)	3,120	3,120
Insurance expense (Business)	14,300	14,300
Business tax	1,300	1,300
Legal fees	42,120	42,120
Audit fees	40,040	40,040
Consultant fees - tax issues	23,920	25,480
Marketing expenses	46,800	46,800
Road shows	15,600	15,600
Other expenses	5,200	5,200
	1,420,633	1,512,767
	$ 2,482,835	$ 2,600,734
Financial expenses		
Interest expense on short-term loan	264,690	180,433
Interest expense on BDC loan	30,004	30,004
Other interest	5,200	5,200
Bank fees	14,300	14,300
	$ 314,194	$ 229,937

SOURCE: The Projections.

Schedule 6

DISTRIBUTIONS CAR-TEL INC.
PROJECTED BALANCE SHEETS
AS AT

	Forecast March 31, 2010	Forecast March 31, 2011
ASSETS		
Current Assets		
Cash	$ (245,434)	$ 15,252
Accounts receivable	2,148,783	2,341,071
Inventories	359,304	359,304
Prepaid expenses and sundry assets	160,189	160,189
	2,422,842	2,875,815
Future income tax asset	823,316	823,316
Property and equipment	645,142	560,602
	$ 3,891,299	$ 4,259,733
LIABILITIES		
Current liabilities		
Line of credit	$ 1,300,000	$ 1,000,000
Accounts payable and accrued liabilities	3,690,537	4,042,475
Income tax payable	(129,956)	(129,956)
	4,860,581	4,912,519
Long-term debt	535,312	277,499
	5,395,893	5,190,019
SHAREHOLDERS' DEFICIENCY		
Capital stock	200	200
Deficit	(1,504,794)	(930,485)
	(1,504,594)	(930,285)
	$ 3,891,299	$ 4,259,733

SOURCE: The Projections.

Schedule 7

DISTRIBUTIONS CAR-TEL INC.
COMPARATIVE INCOME STATEMENTS
FOR THE

	Year Ended March 31, 2009	5 Months Ended March 31, 2008	Years Ended October 31 2007	2006	2005	2004
	Audited	Unaudited	Audited	Audited	Unaudited	Audited
SALES	$ 49,996,344	$ 18,415,743	$ 37,672,072	$ 27,582,820	$ 42,412,468	$ 30,974,699
COST OF SALES						
Inventories - beginning of year	578,321	500,874	517,033	1,461,666	1,898,247	2,119,338
Purchases	47,596,744	17,343,275	34,907,104	25,014,667	40,627,062	28,692,393
Inventories - end of year	(359,304)	(578,321)	(500,874)	(517,033)	(1,461,666)	(1,898,247)
	47,815,761	17,265,828	34,923,263	25,959,300	41,063,643	28,913,484
GROSS MARGIN	2,180,583	1,149,915	2,748,809	1,623,520	1,348,825	2,061,215
EXPENSES						
Selling	391,155	228,460	958,065	946,845	1,439,620	841,579
Operating	1,149,386	918,649	1,351,674	1,280,051	1,129,145	808,767
Financial	15,688	4,136	13,102	14,729	149,185	174,526
	1,556,229	1,151,245	2,322,841	2,241,625	2,717,950	1,824,872
Operating profit before undernoted items and income taxes	624,354	(1,330)	425,968	(618,105)	(1,369,125)	236,343
Amortization of property and equipment	192,295	32,880	103,906	120,124	89,682	77,350
Amortization of intangible asset	25,000	10,417	25,000	25,000	-	-
Interest on loans payable, obligation under capital lease and long-term debt	297,750	97,161	263,758	287,963	17,888	-
Write-down of advances to companies subject to significant influence	-	-	-	-	294,065	-
Gain from disposition of property and equipment	-	-	-	(9,837)	-	-
Write-down of property and equipment	-	-	14,771	-	-	-
Non-recurring item	(250,398)	-	-	325,000	-	-
	264,647	140,458	407,435	748,250	401,635	77,350
(Loss)/income before income taxes	359,707	(141,788)	18,533	(1,366,355)	(1,770,760)	158,993
Provision for (recovery of) income taxes	(836,911)	(35,980)	-	(42,580)	4,836	14,404
Net (loss)/income	$ 1,196,618	$ (105,808)	$ 18,533	$ (1,323,775)	$ (1,775,596)	$ 144,589

SOURCE: Car-Tel's financial statements.

Schedule 8

DISTRIBUTIONS CAR-TEL INC.
COMPARATIVE BALANCE SHEETS
AS AT

	March 31		October 31			
	2009	**2008**	**2007**	**2006**	**2005**	**2004**
	Unaudited	**Unaudited**	**Audited**	**Audited**	**Unaudited**	**Audited**
ASSETS						
Current Assets						
Cash	$ 56,821	$ 29,217	$ 618,507	$ 279,038	$ 200,649	$ 120,293
Accounts receivable	2,393,748	2,570,801	2,352,641	2,091,178	2,603,074	2,790,290
Inventories	359,304	578,321	500,874	517,033	1,461,666	1,898,247
Future income tax asset	152,871	146,231	-	62,407	19,827	-
Sales taxes receivable	129,956	-	-	-	-	-
Prepaid expenses and sundry assets	8,830	42,615	21,689	8,545	9,976	10,740
	3,101,530	3,367,185	3,493,711	2,958,201	4,295,192	4,819,570
Advances to company subject to significant influence	-	-	-	-	15,561	112,625
Sales taxes receivable	-	59,953	119,905	119,905	-	-
Future income tax asset	824,945	-	-	-	-	-
Property and equipment	895,072	248,888	270,510	358,508	323,810	322,776
Intangible asset	39,583	64,583	75,000	100,000	-	-
	$ 4,861,130	$ 3,740,609	$ 3,959,126	$ 3,536,614	$ 4,634,563	$ 5,254,971
LIABILITIES						
Current liabilities						
Accounts payable and accrued liabilities	$ 4,027,722	$ 3,785,955	$ 4,205,739	$ 3,036,934	$ 6,103,460	$ 4,820,430
Loans payable	665,200	1,948,935	1,475,000	1,475,000	-	-
Income tax payable	-	-	-	-	-	2,886
Future income tax liability	7,725	7,725	-	-	-	-
Current portion of long-term debt	-	436,600	423,960	423,960	60,920	99,977
Current portion of other payable	-	498,728	336,000	336,000	-	-
	4,700,647	6,677,943	6,440,699	5,271,894	6,164,380	4,923,293
Future income tax liability	5,916	11,242	-	-	-	-
Long-term debt	506,525	-	189,290	613,250	98,893	164,330
Due to Shareholder	-	-	-	-	-	20,462
Payable to public company	1,400,000	-	263,189	603,955	-	-
	6,613,088	6,689,185	6,893,178	6,489,099	6,263,273	5,108,085
SHAREHOLDERS' DEFICIENCY						
Capital stock	200	200	200	300	300	300
Deficit	(1,752,158)	(2,948,776)	(2,934,252)	(2,952,785)	(1,629,010)	146,586
	(1,751,958)	(2,948,576)	(2,934,052)	(2,952,485)	(1,628,710)	146,886
	$ 4,861,130	$ 3,740,609	$ 3,959,126	$ 3,536,614	$ 4,634,563	$ 5,254,971

SOURCE: Car-Tel's financial statements.

Schedule 9

DISTRIBUTIONS CAR-TEL INC.
GUIDELINE TRANSACTIONS
AS AT MARCH 31, 2009

Target:	DataWave	First Data	efunds	Authorize.net	Echo	Tangarine
Acquirer:	InComm	KKR	Fidelity NIS	Cybersource	Intuit, Inc.	Pivotal
Announced:	September 19, 2006	April 2, 2007	June 27, 2007	June 15, 2007	December 19, 2007	December 24, 2008
Completed date of purchase:	January 5, 2007	September 25, 2007	September 30, 2007	November 1, 2007	February 29, 2008	March 23, 2009
Total purchase price	$ 36,000,000	$ 29,000,000,000	$ 1,800,000,000	$ 565,000,000	$ 131,000,000	$ 18,000,000
Less redundant assets:				$ 103,966,000		
Purchase price less redundant assets				$ 461,034,000		
Statistics						
Revenues	$ 23,893,000	$ 7,100,000,000	$ 552,400,000	$ 101,817,000	$ 22,726,000	$ 6,493,000
EBITDA	$ 3,157,000	$ 1,770,400,000	$ 134,965,000	$ 20,868,000	N/A	$ (858,000)
EBIT	$ 1,669,000	$ 1,062,800,000	$ 86,769,000	$ 12,587,000	$ (1,467,000)	$ (2,675,000)
Employees	89	29,000	5,300	201	230	250
Multiples						
Purchase price/revenue	1.51	4.08	3.26	4.53	5.76	2.77
Purchase price/EBITDA	11.40	16.38	13.34	22.09	N/A	(20.98)
Purchase price/EBIT	21.57	27.29	20.74	36.63	(89.30)	(6.73)
Purchase price/employees	404,494	1,000,000	339,623	2,293,701	569,565	72,000

NOTE: This schedule forms part of, and should be read in conjunction with, the accompanying report.

APPENDIX A — GLOSSARY OF TECHNICAL FINANCIAL AND VALUATION TERMS

For purposes of our Estimate, we have defined the undernoted valuation and financial terms as follows:

A.1 Capital Asset Pricing Model (CAPM)

A model in which the cost of capital for any stock or portfolio of stocks equals a Risk-Free Rate plus a Risk Premium that is proportionate to the systematic risk of the stock or portfolio.

A.2 Capitalization

A conversion of a single period of economic benefits into value.

A.3 Capitalization of Earnings Method

A method within the Income Approach whereby economic benefits for a representative single period are converted to value through division by a capitalization rate.

A.4 Capitalization Rate

Any divisor (usually expressed as a percentage) used to convert anticipated economic benefits of a single period into value.

A.5 Cash Flow

Net after-tax earnings, plus non-cash charges (e.g., depreciation and amortization).

A.6 Cost Approach

A general way of determining a value indication of an individual asset by quantifying the amount of money required to replace the future service capability of that asset.

A.7 Discount Rate

A Rate of Return used to convert a series of future anticipated earnings or cash flows to a present value.

A.8 Discounted Cash Flow Method

A method within the Income Approach whereby the present value of future expected net cash flows is calculated using a discount rate.

A.9 Discounted Future Earnings Method

A method within the Income Approach whereby the present value of future expected economic benefits is calculated using a discount rate.

A.10 EBITDA

Earnings before interest, taxes, depreciation and amortization. This is a debt-free cash flow measure of the funds generated by a business which are available to fund a company's capital investment program and to make payments (interest, dividends and principal repayments) to its providers of capital.

A.11 Economic Benefits

Inflows such as revenues, net income, net cash flows, etc.

A.12 Equity

The owner's interest in property after deduction of all liabilities.

A.13 Equity Risk Premium

A Rate of Return added to a Risk-Free Rate to reflect the additional risk of equity instruments over risk-free instruments (a component of the cost of equity capital or equity discount rate).

A.14 Fair Market Value

The highest price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm's length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.

A.15 Going-Concern Value

The value of a business enterprise that is expected to continue to operate into the future. The intangible elements of Going Concern Value result from factors such as having a trained work force, an operational plant, and the necessary licenses, systems, and procedures in place.

A.16 Goodwill

That intangible asset arising as a result of name, reputation, customer loyalty, location, products, and similar factors not separately identified.

A.17 Income (Income-Based) Approach

A general way of determining a value indication of a business, business ownership interest, security, or intangible asset using one or more methods that convert anticipated economic benefits into a present single amount.

A.18 Intangible Assets

Non-physical assets such as franchises, trademarks, patents, copyrights, goodwill, equities, mineral rights, securities and contracts (as distinguished from physical assets) that grant rights and privileges, and have value for the owner.

A.19 Invested Capital

The sum of equity and debt in a business enterprise. Debt is typically a) all interest bearing debt or b) long-term interest-bearing debt.

A.20 Market (Market-Based) Approach

A general way of determining a value indication of a business, business ownership interest, security, or intangible asset by using one or more methods that compare the subject to similar businesses, business ownership interests, securities, or intangible assets that have been sold.

A.21 Multiple

The inverse of the capitalization rate.

A.22 Net Book Value

With respect to a business enterprise, the difference between total assets (net of accumulated depreciation, depletion, and amortization) and total liabilities as they appear on the balance sheet (synonymous with Shareholder's Equity). With respect to a specific asset, the capitalized cost less accumulated amortization or depreciation as it appears on the books of account of the business enterprise.

A.23 Rate of Return

An amount of income (loss) and/or change in the value realized or anticipated on an investment, expressed as a percentage of that investment.

A.24 Redundant Assets

Assets which are excess to (and which do not influence) the going-concern value of the operating assets of a business. They may be described as the assets not required in the day-to-day operations of the business and which can be withdrawn without adversely affecting the business' ability to operate.

A.25 Required Rate of Return

The minimum Rate of Return acceptable by investors before they will commit money to an investment at a given level of risk.

A.26 Residual Market Capitalization ("RMC")

Market Capitalization less Cash and Cash Equivalents. RMC measures a company's overall capitalization on a basis which is prior to consideration of its cash retention policy.

A.27 Risk-Free Rate

The Rate of Return available in the market on an investment free of default risk.

A.28 Risk Premium

A Rate of Return added to a Risk-Free Rate to reflect risk.

A.29 Tax Shield

The present value of the future reduction in the taxes that would be payable as a result of capital cost allowance claims available to be offset against income/cash flow otherwise subject to income taxes.

A.30 Unsystematic Risk

The risk specific to an individual security that can be avoided through diversification.

A.31 Valuation Ratio

A fraction in which a value or price serves as the numerator and financial, operating, or physical data serves as the denominator.

A.32 Weighted Average Cost of Capital (WACC)

The cost of capital (discount rate) determined by the weighted average, at market value, of the cost of all financing sources in the business enterprise's capital structure.

A.33 Working Capital

The amount by which Current Assets exceed Current Liabilities.