WISE, BLACKMAN LLP

FAIR VALUE OF
DISTRIBUTIONS CAR-TEL INC.
AS AT MARCH 31, 2010

PRIVATE & CONFIDENTIAL

FAIR VALUE OF
DISTRIBUTIONS CAR-TEL INC.
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W I S E , B L A C K M A N LLP
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BUSINESS VALUATION • FORENSIC ACCOUNTING
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PRIVATE & CONFIDENTIAL

July 23, 2010

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, 2010
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, 2010 (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 3064 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 measure 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 performing their attest function, in connection with the Parent's financial reporting.

Handbook Section 3064 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, a "Step Two" analysis must 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) *Handbook*, Sections 1581.06(b) and 3064.08(F).

1.2 Fair Value Measurement

Paragraphs A1 to A8 to Appendix A to Section 1581 of the *Handbook* 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.

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 to 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, many Canadian and U.S. companies that include, among others, Abitibi-Consolidated Inc., Alliance Film Corporation, Amrop International, Air Canada, Ardène Bank of Montreal, Bank of Nova Scotia, BASF, B.C. SkyTrain, Bell Canada, Benjamin Moore, Bestfoods Inc., Boralex, BP America, Canada Trustco, Canadian Pacific Ltd., Chiron, CSX, Datamark, Dominion Stores, Domtar, Fraser Companies, General Instrument, Gildan Activewear, Global Communications, Guarantee Company of North America, Hollinger Argus, Honeywell,

Hunter Douglas, Ivaco Inc., Keeprite, Kruger Inc., Lactantia, Lloyds of London, Loblaw Companies, Maple Leaf Gardens Limited, Merck Frosst, Michelin Tire, Montreal Trust, National Sea Products, Nortel, Quebecor, Radio Shack, Simcoe & Erie, Southam Publishing, Télémedia Inc., Toronto-Dominion Bank, Ultramar, United Westburne, West Edmonton Mall, Westfair Foods, 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 been retained by the Attorney General of Ontario, Public Trustee of Ontario, the Commissioner of Competition and the Autorité des marchés financiers du Québec as valuation advisors. Our firm has also valued other companies in the payment processing industry and prepaid card industry.

Wise, Blackman, which serves many clients in the United States, has also acted for clients in England, Brazil, 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 more than ninety 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, including those of the American Institute of Certified Public Accountants;[4] McGraw-Hill;[5] Irving Library of Investment and Finance;[6] John Wiley & Sons;[7] Warren, Gorham & Lamont;[8] Aspen Law & Business;[9] and Carswell,[10] have been regular columnists in professional journals in Canada and the U.S., have authored/co-authored books on business valuation[11] and litigation

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

(5) *The Handbook of Business Valuation and Intellectual Property Analysis* (New York: 2004) and *Valuing a Business*, Fifth Edition (New York: 2008).

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

(7) *Handbook of Business Valuation*, First Edition (1992) and Second Edition (New York: 1999); *Business Valuation and Taxes* (2005); and *Cost of Capital*, Third Edition (2008).

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

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

(10) Critical Changes in the Playing Field Affecting Valuation (in print).

(11) *Guide to Canadian Business Valuations*, Thomson Carswell, 3 volumes (loose-leaf service).

support and are frequently retained to review authors' manuscripts for leading business valuation textbooks[12].

The professional résumés of the members of **Wise, Blackman** who are responsible for the preparation of this report are appended hereto.

1.4 Independence of Wise, Blackman LLP

Wise, Blackman is not an insider, associate or affiliate of the Parent or any of its subsidiaries, 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 reached 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. FAIR VALUE 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

(12) S.P. Pratt and R.J. Grabowski, *Cost of Capital — Applications and Examples*, Fourth Edition, Wiley (in print); S.P. Pratt, *The Lawyer's Business Valuation Handbook: Understanding Financial Statements, Appraisal Reports, and Expert Testimony*, Second Edition, Section of Family Law, American Bar Association (in print); S.P. Pratt and R.J. Grabowski, *Cost of Capital — Applications and Examples*, Third Edition, Wiley (2008); S.P. Pratt, *Valuing a Business: The Analysis and Appraisal of Closely-Held Companies*, Fifth Edition, McGraw-Hill (New York: 2008); Judge D. Laro and Dr. S.P. Pratt, *Business Valuation and Taxes: Procedure, Law, and Perspective,* John Wiley & Sons Inc. (Hoboken, NJ: 2005); F.C. Evans and D.M. Bishop, *Valuation of M&A: Building Value in Private Companies*, John Wiley & Sons Inc. (New York: 2001); S.P. Pratt, R.F. Reilly and R.P. Schweihs, *Valuing a Business: The Analysis and Appraisal of Closely-Held Companies*, Fourth Edition, McGraw-Hill (New York: 2000); and Z.C. Mercer, *Quantifying Marketability Discounts*, Peabody Publishing (Memphis, TN: 1997).

(see Section 2.1, **Restriction and Disclaimer**), the fair value, at the Valuation Date, of the Reporting Unit, ranged between $4,960,000 and $5,070,000. The carrying amount of the Reporting Unit at the Valuation Date was $1,201,000,[13] 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 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.

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 our being informed of facts existing at the Valuation Date that become known to us after our Estimate has been issued.

(13) 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 (excluding current portion of long-term debt), (b) property and equipment, (c) intangible assets and goodwill and (d) other long term assets.

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, 2012, 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, 2012. 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:

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

(b) 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;

(c) 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

(d) 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 of fair value, 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 hereinbelow.

3.1 Financial and Corporate Documents

- Draft consolidated financial statements of Saratoga for the fiscal year ended March 31, 2010, as prepared by management;
- Internal financial statements of Car-Tel for the fiscal year ended March 31, 2010, as prepared by management;
- Unaudited financial statements of Car-Tel for the two fiscal years ended March 31, 2009, as prepared by management;
- Audited financial statements of Car-Tel for the three fiscal years ended October 31, 2007, as reported on by WSBG;
- Draft Schedule 1 of Federal T2 Corporation Income Tax Return for the 2010 taxation year of Car-Tel;
- Federal T2 and Quebec CO-17 Corporation Income Tax Returns for the 2009 taxation year of Car-Tel;
- Projections for the two-year period ending March 31, 2012 (the “Projection Period”), as prepared by management (the “Projections);
- Monthly “virtual products” sales report, by customer, for the twelve-month period ended March 31, 2010, 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 reviewed 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*;
- *Stocks, Bonds, Bills, and Inflation, 2010 Yearbook — Valuation Edition*, Morningstar, Inc. (Chicago: 2010);
- *Risk Premium Report 2010*, Duff & Phelps, LLC (Chicago);
- *Econoscope*, RBC Financial Group, Vol. 34, No. 3, March 2010;
- http://www.fin.gc.ca;
- 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 that 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 that 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 that we have not considered in reaching our Estimate.

4. 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

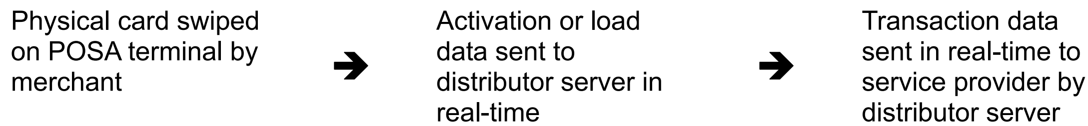
and the prepaid card industry grew to several hundred billion dollars. The products offering expanded to:

- 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.

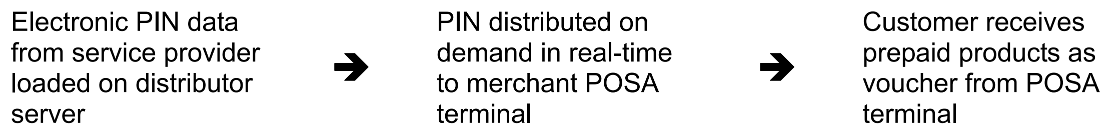
These products were first introduced as "live" cards, or pre-activated cards. Such physical cards had a value like cash, had to be carried as inventory, and were prone to theft and other inherent security issues. The necessary control over the physical cards limited their potential merchandising.

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 point-of-sale ("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



PIN PROVIDED TO CUSTOMER BY MERCHANTS



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.

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.

5. CAR-TEL

5.1 Description of Car-Tel

Car-Tel operates in the distribution of prepaid products and in the management of POS terminals, with operations in eastern Canada. At the Valuation Date, its customer list included approximately 2,810 merchants, located as follows:

No. of Merchants	Province
2,398	Quebec
326	Ontario
30	Nova Scotia
26	Newfoundland
26	New Brunswick
4	Prince Edward Island

Car-Tel had a workforce of 11 employees:

- 6 in sales and operations;
- 1 in IT and programming; and
- 4 in administration.

Founded in 2001, Car-Tel had grown steadily until 2006, at which time it had 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;
- Fido;
- Rogers;
- Telus Canada;
- Telus Mobility; and
- Virgin Mobile,

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

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

Management expected that the recently-introduced third-party gift card segment will 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 earns 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 Mr. 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.

5.2 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 executives have been working for Car-Tel since its early days.

5.3 Financial Results

For the fiscal year 2011 and 2012, the Reporting Unit is projecting gross revenues of $63,228,265 and $66,801,553, respectively, and pre-tax earnings of $682,692 and $1,148,711 respectively (Schedule 5). For fiscal 2010, it generated gross revenues of $52,545,642 and pre-tax earnings of $225,297 (Schedule 7). At the Valuation Date, the Reporting Unit had a current ratio (working capital ratio) of 0.70:1 and total assets at book value of $4,528,820 (Schedule 8).

6. 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[14]) of $1,000,000. The valuation for financial reporting purposes performed at the Acquisition Date had considered a

(14) A "blockage discount" is an amount or a percentage deducted from the current market price of a publicly-traded security to reflect the decrease in the per-share value of a bock of those securities that is of a size that could not be sold in a reasonable period of time given normal trading volume.

blockage discount — as the shares of Saratoga were held by a small number of investors, the share price was volatile and the low trading volume could not have accommodated the sudden sale of the shares issued in the Car-Tel transaction without causing downward pressure on the share trading price. This implies that the consideration for the shares of Car-Tel was approximately $750,000 (i.e., $1,000,000 reduced by a 25% blockage discount).

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

	Fair Values
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. The balances were as follows:

- Contractual customer relationships: $560,000 ($1,680,000 at the Acquisition Date);
- Favourable supplier contract: nil ($130,000 at the Acquisition Date); and
- Non-competition agreement: nil ($410,000 at the Acquisition Date).

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

7. IDENTIFICATION OF THE REPORTING UNIT

Handbook Section 3064.08(j) 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."

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

Management has concluded that Car-Tel had a single operating segment (*viz.*, distributing third-party prepaid cards) for which discrete financial information was regularly produced and reviewed by management. This operating segment should therefore, in management's opinion, be considered a reporting unit. Based on our review and analysis, we concur with management's assessment and accordingly consider Car-Tel to be a Reporting Unit within the meaning of *Handbook* Section 3064.08(j).

8. FINANCIAL REPORTING STANDARDS

8.1 Introduction and Background

Handbook Section 1100 establishes standards for financial reporting pursuant to GAAP. The primary sources of GAAP are 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.[15]

Paragraph 3 of Section 1100 states that:

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(15) *Handbook*, Section 1100.02(c).

> " ... 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 … ",[16] entities are encouraged to consult "pronouncements issued by bodies authorized to issue accounting standards in other jurisdictions … ".[17,18]

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]
>
> *... 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.)

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(16) *Handbook*, Section 1100.04.

(17) *Handbook*, Section 1100.24.

(18) The equivalent U.S. standards are promulgated by the Financial Accounting Standards Board ("FASB") in Accounting Standards Codifications 820 and 350. 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.

(19) *Handbook*, Section 1100.24.

(20) *Handbook*, Section 1100.25.

8.1.1 GAAP Applicable to Intangible Assets and Goodwill

As noted above, the Canadian standards are embodied in *Handbook* Sections 1581 and 3064, together with the relevant pronouncements of the EIC.

9. FAIR VALUE MEASUREMENT METHODOLOGY

9.1 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.

9.2 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

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(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.

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:

9.2.1 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' 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, adjustments are made to the market-based Valuation Ratios to reflect such differences.

9.2.2 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.

9.2.3 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 within a meaningful timeframe. In this regard, an analysis is made to determine whether, among other things, 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.

9.3 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 that 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 developing a Capitalization Rate or Discount Rate (Rate of Return). In developing the appropriate rate, 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. are considered. 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:

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(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.

(a) Capitalizing operating earnings or cash flow[24], applying either the Capitalized 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-Revenues Method[25].

9.3.1 Capitalized Earnings Method — General

To determine the value of a business applying the Capitalized 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:

- 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

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(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).

arrive at the Capitalized Earnings Value[26], or 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 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*.

9.3.2 Capitalized of Cash Flow ("CCF") Method — General

A variation of the Capitalized Earnings Method of determining the Going-Concern Value of a business is the Capitalized 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 business, the Capitalized Cash Flow Method can often be more reliable than the Capitalized 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.

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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.

(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.

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. Redundant Assets, if any, are added to arrive at the fair value of the entity as a whole, i.e., “corporate worth”.

9.3.3 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 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.

9.3.4 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:

$$WACC = (K_e * W_e) + (K_d * W_d)$$

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 was utilized.

9.3.5 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

(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).

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 (4.07% at March 31, 2010), 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 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 considered 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, 2010 on the above-noted long-term benchmark Government of Canada bonds of 4.07%.

- ***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,* 2010 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 3.02% for the 2010 Equity Risk Premium based on the *Stocks, Bonds, Bills, and Inflation 2010 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 7.07%[30] size premium with respect to the Reporting Unit.

- ***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 7.47% 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)

(30) We arrived at a 7.07% size premium using data gleaned from *Risk Premium Report 2010*, published by Duff & Phelps LLC.

9.4 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).

9.5 Combination of Approaches — General

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.

9.6 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) reducing projected gross margin to reflect the risk of not realizing the additional transaction fee budgeted therein[31];

(c) 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;

(d) 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 (c), 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.;

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(31) Car-Tel planned to realize an additional fee of $1 per transaction beginning in the second quarter of fiscal year 2011. Such additional revenue will be shared 50/50 with Car-Tel's merchants. Considering that there are approximately 305,000 transactions per month involving Car-Tel's products, the Projections included additional gross margin of $1,372,500 and $1,830,000 in fiscal years 2011 and 2012, respectively. We discounted such additional gross margin by 50% in each year of the Projections to reflect the uncertainty of realization of the additional $1 fee.

(e) 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 (c) by applying the Discount Rate developed in (d);

(f) estimating the residual (or terminal) value of Car-Tel at the end of the Projection Period (March 31, 2012) by capitalizing the 2012 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 (d) 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 (d); and

(g) aggregating, with the present value of the Invested Capital Net Cash Flow in (e), the present value of the residual value of the Companies in (f), the present value of non-capital loss carryforwards available beyond the Projection Period and the present value of the Tax Shield[32] on depreciable capital assets, which yielded the value of the Reporting Unit.

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.

9.7 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 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.

(32) Defined in Appendix A, Section A.30.

10. STEP ONE OF IMPAIRMENT ANALYSIS

As required by *Handbook* Section 3064, 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.

10.1 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 an impairment loss that could have been required to be recognized *vis-à-vis* other intangible assets (*Handbook* Section 3064) and long-lived assets (*Handbook* Section 3063), as required by *Handbook* Section 3064.

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 non-recoverable at the Valuation Date. Management also estimated that the book values (carrying values) of the tangible assets approximated their fair values. We therefore used the carrying amount of the Reporting Unit, as presented on Car-Tel's Balance Sheet as at March 31, 2010, of $1,201,000[33].

(33) *Supra,* footnote 13.

11. VALUATION OF THE REPORTING UNIT

11.1 Primary Valuation Methodology — Income Approach

11.1.1 Invested Capital Net Cash Flow

In determining Car-Tel's Invested Capital Net Cash Flow[34] 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 above, **Scope of Our Review**. We also obtained information and explanations from management with respect to past operations and future operations, viewed prospectively as of the Valuation Date.

As noted in Section 9.6, 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/to which we:

(a) deducted estimated income taxes at 28.4% in 2011 and 26.9% in 2012,[35] based on the assumption that Car-Tel would not be eligible 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 projected EBITDA for 2011 and 2012;

(c) made an adjustment for estimated Working Capital requirements; and

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

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(34) Those cash flows available to pay out to equity holders (in the form of dividends) and debt investors (in the form of principal and interest) after funding operations of the business enterprise and making necessary capital investments.

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

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

11.1.1.1 Working Capital Requirements

We estimated "adjusted working capital[36]" to increase from its 2010 negative level of \$(1,391,260) to \$(344,400) in 2011 and to decrease to \$(400,228) in 2012, according to requirements as per the projected balances sheets (Schedule 6) during the Projection Period. Adjusted working capital is expected to be relatively stable subsequent to the Projection Period.

11.1.1.2 Sustaining Capital Reinvestment

Based on its budget, Car-Tel is expected to make annual capital expenditures of \$90,000 in 2011 and thereafter, which will be \$76,700 in 2011 and \$77,400 in 2012 and subsequent years, net of Tax Shield (Schedule 2.1).

11.1.2 Discount Rate

In developing the Discount Rate, we applied the Build-Up Method (outlined in Section 9.3.5).

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(36) "Adjusted working capital" is calculated as current assets (net of cash and future income tax asset) less current liabilities (net of debt and future income tax liability). Variations of adjusted working capital represent cash requirements affecting the cash flows available to Invested Capital.

11.1.2.1 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, among others, 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, among others:

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

11.1.2.2 Discount Rate (WACC) and Capitalization Rate

As explained in Section 9.3.4, 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 11.1.2.1, and applying the Build-Up Method in Section 9.3.5, we concluded that a notional purchaser would require an after-tax equity Rate of Return of between 21.30% and 23.54% (midpoint: 22.42%). Combining this equity Rate of Return with the Reporting Unit's estimated after-tax debt financing rate of 10.38%, and applying an industry debt/equity weighting of 5%/95%, resulted in a WACC in the range of 21.60% to 22.04%. After applying a perpetual growth factor of 3%, we arrived at a Capitalization Rate in the range of 18.09% to 18.45% (midpoint: 18.27%).

11.1.3 Present-Value Summary

Applying Discount Rates of 21.60% to 22.04% (comprising a factor for the time-value of money and factors relating to the risk-profile of the cash flow stream) to the Invested Capital Net Cash Flow for the 2011 and 2012 fiscal years, yielded the present value thereof, being in the range of $889,000 to $893,000 (Schedule 2).

11.1.4 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, 2012. We used projected EBITDA of $1,457,811 for 2012 (Schedule 2), from which we deducted income taxes of $392,151 and SCR of $77,400 net of Tax Shield, arriving at Invested Capital Net Cash Flow of $988,000 for the terminal year (Schedule 3).

11.1.4.1 Capitalization Rate, Terminal Year

In developing the Capitalization Rate (or Multiple of Price-to-Invested Capital Net Cash Flow) to apply to the projected Invested Capital Net Cash Flow for the terminal year (2012), we considered the risk factors in Section 11.1.2.1 as well as the rates of return on alternative investments in Section 9.3.5.

Based on our review and analysis of the factors referred to above and applying the Build-Up Method in Section 9.3.5, we developed a Capitalization Rate of 18.09% to 18.45% (representing Multiples of Price-to-Invested Capital Net Cash Flow of 5.42 to 5.53) to apply to 2012's Invested Capital Net Cash Flow.

11.1.4.2 Summary

Applying the said Multiples of 5.42 to 5.53 to the Invested Capital Net Cash Flow of $988,000 for the terminal year (2012) (Schedule 3) yielded the Capitalized Invested Capital Net Cash Flow value of Car-Tel at the end of the Projection Period (March 31, 2012). Applying present-value (discount) factors of 21.60% to 22.04% thereto, resulted in a residual (terminal) value range for Car-Tel as of the Valuation Date of $3,971,000 to $4,073,000 (Schedule 3).

11.1.5 Tax Shield

We understand that the Reporting Unit will be able to claim capital cost allowance on its undepreciated capital cost pools. Accordingly, we calculated the Tax Shield as a component to be included in the Reporting Unit's fair value. We estimated the Tax Shield to be in the range of $101,000 to $102,000 (Schedule 4).

11.1.6 Fair Value of Reporting Unit

To the present value of the Invested Capital Net Cash Flow (Section 11.1.3), we added (a) the present value of the terminal value of Car-Tel at the end of the Projection Period (Section 11.1.4), (b) the tax benefit resulting from loss carryforwards, and (c) the Tax Shield (Section 11.1.5), which resulted in the estimated fair value of the Reporting Unit at the Valuation Date, being in the range of $4,960,000 to $5,070,000 (Schedule 1).

11.2 Corroborative Valuation Methodology — Market Approach

11.2.1 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-card and payment-processing industries. We were able to identify five significant transactions for which meaningful pricing data might have been 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).

However, based on our review and analysis, we concluded that the acquirees in those transactions were not directly comparable to Car-Tel, being for the most part involved in payment processing as opposed to distribution of third-party prepaid cards. The profitability margin is substantially higher in the payment processing industry (with EBITDA-to-Revenues margins ranging from 2.29% to 20.00% for the two profitable acquirees compared with 1.54% for Car-Tel in 2010. This might be explained by different accounting methods being applied, i.e., reporting revenues *gross* versus *net*), which would render Price-to-Revenues or Price-to-EBITDA Valuation Ratios of Guideline Transactions meaningless in estimating the value of Car-Tel. Accordingly, we rejected the Guideline Transactions Method as a corroborative valuation methodology.

11.2.2 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.

11.2.2.1 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 potential Guideline Companies for purposes of our valuation:

11.2.2.1.1 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, Ontario area. SelectCore's current product and service offerings across Canada include:

- Prepaid residential telephone;
- Prepaid long distance;
- Prepaid broadband residential Internet;
- Prepaid wireless;
- Prepaid gift cards;
- Prepaid reloadable credit cards; and
- Bill payments.

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.

11.2.2.1.2 VendTek Systems Inc.

VendTek Systems Inc. ("Vendtek") is a Canadian publicly-traded company that has been in operation 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. Its headquarters are located in British Columbia; there is also a sales office in China.

Vendtek's system is operated 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.

11.2.2.2 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 selected as 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 1
COMPANIES CONSIDERED, BUT REJECTED, AS GUIDELINE COMPANIES

Company	Reason for Rejection
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 in services provided

11.2.2.3 Valuation Multiples

With respect to the Guideline Companies in Section 11.2.2.1, we wee unable to develop meaningful Enterprise Value-to-EBITDA multiples, as they (a) had nominal or negative EBITDA and (b) had thinly-traded securities issued. Applying such Valuation Ratios derived from limited or unrepresentative data to Car-Tel's parameters would not provide insight and be a useful indicator for developing values *vis-à-vis* Car-Tel. However, we calculated the following Valuation Ratios using revenues and gross profit from the data gathered in respect of the Guideline Companies in Section 11.2.2.1:

	Valuation Ratio
Enterprise Value-to-Revenues	0.14:1 to 0.17:1
Enterprise Value-to Gross Profit	2.54:1 to 3.53:1

Applying such Valuation Ratios to Car-Tel's financial data resulted in Enterprise Value estimates of $7,384,000 to $9,127,000 and 5,492,000 to 7,638,000, respectively. This results in a higher Enterprise Value range for Car-Tel (or alternatively, a higher estimated value range for the Reporting Unit) than in our analysis applying the DCF Method; however, the difference could be explained by (a) the higher gross profit margin (in percentage) of the Guidelines Companies (Section 11.2.2.1), (b) the larger size (in terms of revenue) of the Guidelines Companies (Section 11.2.2.1) and (c) the higher marketability of the shares of the Guidelines Companies (Section 11.2.2.1), being publicly-traded companies. Accordingly, we believe that the Market Approach, applying the GPC Method, corroborates our conclusion arrived at in Section 12.

12. 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 $4,960,000 to $5,070,000. As the carrying amount is $1,201,000[37] there is no indication as at March 31, 2010 of a requirement to perform Step Two of the annual goodwill impairment test pursuant to *Handbook* Section 3064.

(37) *Supra*, footnote 13.

We trust that the foregoing will be of assistance to you.

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, 2010

	Range		
	High		**Low**
Present value of Invested Capital Net Cash Flow (Schedule 2)	$ 893,000		$ 889,000
Present value of Residual Value (Schedule 3)	4,073,000		3,971,000
Tax Shield on depreciable capital assets (Schedule 4)	102,000		101,000
Fair Value of Reporting Unit (rounded)	**$ 5,070,000**		**$ 4,960,000**
Midpoint	**(A)**	**$ 5,015,000**	
Carrying Value of Reporting Unit			
Total Assets (Schedule 7)		$ 4,528,820	
ADD: Contractual customer relationships		560,000	
Goodwill		888,636	
LESS: Cash (Schedule 7)		(273,430)	
Accounts payable and accrued liabilities (Schedule 7)		(4,502,882)	
	(B)	**$ 1,201,000**	
Excess of Fair Value over Carrying Value	**(A) - (B)**	**$ 3,814,000**	

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

			2011	**2012**
EBITDA (Schedule 5)			$ 1,136,618	$ 1,457,811
LESS:	Estimated income taxes @		28.40%	26.90%
			(322,800)	(392,151)
ADD:	Tax savings from non-capital loss carryforwards (Schedule 2.2)		322,800	137,851
After-tax Invested Capital Operating Cash Flow before adjustments			1,136,618	1,203,510
LESS:	Working capital adjustment		(1,046,860)	55,827
	Estimated sustaining capital reinvestment (net of Tax Shield - Schedule 2.1)		(76,700)	(77,400)
Invested Capital Net Cash Flow			13,059	1,181,938
Discount rate		21.60%	0.9068	0.7457
Present value of Invested Capital			11,842	881,428
Total (rounded)			**$ 893,000**	
Discount rate		22.04%	0.9052	0.7418
Present value of Invested Capital			11,821	876,705
Total (rounded)			**$ 889,000**	

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

	2011	**2012**	**2013 & After**
Estimated capital expenditure required per management estimate	$ 90,000	$ 90,000	$ 90,000
LESS: Tax Shield thereon *	(13,300)	(12,600)	(12,600)
Estimated sustaining capital reinvestment (net of Tax Shield)	**$ 76,700**	**$ 77,400**	**$ 77,400**

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

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, 2010

	2010		Allocation of Income Tax Savings 2011	2012
Projected EBITDA			$ 1,136,618	$ 1,457,811
Non-capital loss carried forward		(A)	(1,136,618)	(607,931)
Balance of non-capital loss carryforwards — Federal*	$ 1,744,549		607,931	-
Total federal income tax savings (A * income tax rate)		**(B)**	**$ 187,542**	**$ 91,190**

	2010		Allocation of Income Tax Savings 2011	2012
Projected EBITDA			$ 1,136,618	$ 1,457,811
Non-capital loss carried forward		(C)	(1,136,618)	(392,112)
Balance of non-capital loss carryforwards — Quebec*	$ 1,528,730		392,112	-
Total Quebec income tax savings (C * income tax rate)		**(D)**	**$ 135,258**	**$ 46,661**
Total combined income tax savings (B + D)			**$ 322,800**	**$ 137,851**

* Estimated as follow:

Federal	
Balance at the end of 2009, according to tax return	$ 2,125,096
Losses applied to reduce estimated 2010 taxable income	(380,547)
	$ 1,744,549
Provincial	
Balance at the end of 2009, according to tax return	$ 1,927,777
Losses applied to reduce estimated 2010 taxable income	(399,047)
	$ 1,528,730

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, 2010

EBITDA — terminal year (Schedule 2)	$ 1,457,811
LESS: Estimated income taxes @ 26.90%	(392,151)
Adjusted after-tax Invested Capital Operating Cash Flow before SCR	1,065,660
LESS: Estimated sustaining capital reinvestment (net of Tax Shield - Schedule 2.1)	(77,400)
Invested Capital Net Cash Flow (rounded)	**$ 988,000**

	Range	
	High	**Low**
Capitalized at:		
18.09% (5.53 times)	$ 5,461,975	$ -
18.45% (5.42 times)	-	5,353,817
Residual value as at end of March 31, 2012 (rounded)	5,462,000	5,354,000
Discounted at		
21.60%	4,073,278	-
22.04%	-	3,971,340
Residual value as at March 31, 2010 (rounded)	**$ 4,073,000**	**$ 3,971,000**

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, 2010

Assets	CCA Class	UCC Pool*	2010 CCA**	2010 UCC Pool	CCA Rate	Tax Rate	Tax Shield* 21.60%	Tax Shield* 22.04%
Machinery, equipment and furniture	8	$88,460	$ (17,692)	$ 70,768	20%	28.40%	$ 9,662	$ 9,562
Equipment	10	14,928	(4,478)	10,450	30%	28.40%	1,725	1,711
Rolling stock	10	11,236	(3,371)	7,865	30%	28.40%	1,299	1,288
Machinery	43	764,452	(229,336)	535,116	30%	28.40%	88,354	87,613
Computer equipment	45	6,305	(2,837)	3,468	45%	28.40%	665	661
Computer equipment	50	3,442	(1,893)	1,549	55%	28.40%	316	314
			$ (260,000)		**rounded**		**$ 102,000**	**$ 101,000**

* Based on 2009 federal income tax return.

** Estimated CCA for fiscal year ended March 31, 2010, presumed only nominal acquisitions were made.

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

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

Schedule 5

DISTRIBUTIONS CAR-TEL INC.

PROJECTED INCOME STATEMENT

AS AT MARCH 31

	2011	2012
Sales	$63,228,265	$66,801,553
Volume discounts	(495,710)	(487,651)
Net Sales	62,732,556	66,313,902
Cost of goods sold	59,260,540	62,286,521
Cash discounts on purchases	(669,024)	(698,128)
Volume Rebate Bell Canada LD	(73,988)	(78,053)
Net cost of goods sold	58,517,528	61,510,340
Gross Margin	4,215,028	4,803,562
LESS: New transaction fee income budgeted (discounted 50%)	(686,250)	(915,000)
Adjusted budgeted gross margin	3,528,778	3,888,562
SG&A (Schedule 5.1)	2,392,160	2,430,751
EBITDA	1,136,618	1,457,811
Depreciation & amortization	199,253	130,520
Financial expenses (Schedule 5.1)	254,673	178,580
	453,926	309,100
Income before income taxes	**$ 682,692**	**$ 1,148,711**

SOURCE: The Projections.

Schedule 5.1

DISTRIBUTIONS CAR-TEL INC.
PROJECTED INCOME STATEMENT
AS AT MARCH 31

	2011	2012
SG&A		
Salaries	$ 526,353	$ 526,353
Commissions/bonus	260,000	260,000
Temporary salaries	26,000	26,000
Fringe benefits	63,162	63,162
Training	5,264	5,264
Sub-total employee related expenses	880,779	880,779
Telecommunication expense	44,200	44,200
Switch fees	682,865	721,457
Meal & entertainment	31,200	31,200
Traveling expenses	145,600	145,600
Computer expenses	7,800	7,800
Support technique	95,992	95,992
Office expenses	89,700	89,700
Operating leases — office	41,600	41,600
Postal expenses	46,800	46,800
Rent expense	56,784	56,784
Insurance expense (D & O)	1,560	1,560
Insurance expense (Business)	14,300	14,300
Business tax	1,040	1,040
Legal fees	21,580	21,580
Audit fees	40,040	40,040
Consultant fees - tax issues	13,000	13,000
Marketing expenses	36,400	36,400
Management expenses	120,120	120,120
Road shows	15,600	15,600
Other expenses	5,200	5,200
	1,511,381	1,549,973
	$ 2,392,160	**$ 2,430,751**
Financial expenses		
Interest expense on short-term loan	$ 203,869	$ 127,776
Interest expense on BDC loan	30,004	30,004
Other interest	7,800	7,800
Bank fees	13,000	13,000
	$ 254,673	**$ 178,580**

SOURCE: The Projections.

Schedule 6

DISTRIBUTIONS CAR-TEL INC.

PROJECTED BALANCE SHEETS

AS AT MARCH 31

	2011	2012
ASSETS		
Current Assets		
Cash	$ 237,994	$ 1,787,835
Accounts receivable	2,468,182	2,572,191
Inventories	889,199	889,199
Advance from Saratoga ATM Corporations	54,275	54,275
Prepaid expenses and sundry assets	10,729	10,729
	3,660,379	5,314,229
Future income tax asset	964,175	964,175
Property and equipment	449,186	318,666
	$ 5,073,740	**$ 6,597,070**
LIABILITIES		
Current liabilities		
Line of credit	$ 1,038,461	$ 586,768
Accounts payable and accrued liabilities	3,994,754	4,154,591
Income tax payable	(227,969)	(227,969)
	4,805,246	4,513,390
Long-term debt	396,213	147,689
	5,201,459	4,661,079
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Capital stock	200	200
Deficit	(127,919)	1,935,791
	(127,719)	1,935,991
	$ 5,073,740	**$ 6,597,070**

SOURCE: The Projections.

Schedule 7

DISTRIBUTIONS CAR-TEL INC.
COMPARATIVE INCOME STATEMENTS
FOR THE

	Year Ended March 31, 2010	Year Ended March 31, 2009	5 Months Ended March 31, 2008	Years Ended October 31 2007	2006	2005
	Unaudited	**Unaudited**	**Unaudited**	**Audited**	**Audited**	**Unaudited**
SALES	$ 52,545,642	$ 50,067,925	$ 18,415,743	$ 37,672,072	$ 27,582,820	$ 42,412,468
COST OF SALES						
Inventories — beginning of year	359,304	578,321	500,874	517,033	1,461,666	1,898,247
Purchases	50,911,461	47,322,670	17,343,275	34,907,104	25,014,667	40,627,062
Inventories — end of year	(889,199)	(359,304)	(578,321)	(500,874)	(517,033)	(1,461,666)
	50,381,566	47,541,687	17,265,828	34,923,263	25,959,300	41,063,643
GROSS MARGIN	2,164,076	2,526,238	1,149,915	2,748,809	1,623,520	1,348,825
EXPENSES						
Selling	404,769	749,728	228,460	958,065	946,845	1,439,620
Operating	936,436	1,136,468	918,649	1,351,674	1,280,051	1,129,145
Financial	11,581	13,554	4,136	13,102	14,729	149,185
	1,352,786	1,899,750	1,151,245	2,322,841	2,241,625	2,717,950
Operating profit before undernoted items and income taxes	811,290	626,488	(1,330)	425,968	(618,105)	(1,369,125)
Amortization of property and equipment	261,867	192,295	32,880	103,906	120,124	89,682
Amortization of intangible asset	25,000	25,000	10,417	25,000	25,000	-
Interest on loans payable, obligation under capital lease and long-term debt	299,126	299,884	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	-
	585,993	266,781	140,458	407,435	748,250	401,635
(Loss)/income before income taxes	225,297	359,707	(141,788)	18,533	(1,366,355)	(1,770,760)
Provision for (recovery of) income taxes	74,546	(438,252)	(35,980)	-	(42,580)	4,836
Net (loss)/income	**$ 150,751**	**$ 797,959**	**$ (105,808)**	**$ 18,533**	**$ (1,323,775)**	**$ (1,775,596)**

SOURCE: Car-Tel's financial statements.

Schedule 8

DISTRIBUTIONS CAR-TEL INC.
COMPARATIVE BALANCE SHEETS
AS AT

	March 31			October 31		
	2010	**2009**	**2008**	**2007**	**2006**	**2005**
	Unaudited	**Unaudited**	**Unaudited**	**Audited**	**Audited**	**Unaudited**
ASSETS						
Current Assets						
Cash	$ 273,430	$ 56,821	$ 29,217	$ 618,507	$ 279,038	$ 200,649
Accounts receivable	1,910,134	2,393,748	2,570,801	2,352,641	2,091,178	2,603,074
Inventories	889,199	359,304	578,321	500,874	517,033	1,461,666
Future income tax asset	309,465	76,435	146,231	-	62,407	19,827
Sales taxes receivable	227,969	129,956	-	-	-	-
Loan to parent company	54,275					
Prepaid expenses and sundry assets	30,045	8,830	42,615	21,689	8,545	9,976
	3,694,517	3,025,094	3,367,185	3,493,711	2,958,201	4,295,192
Advances to company subject to significant influence	-	-	-	-	-	15,561
Sales taxes receivable	-	-	59,953	119,905	119,905	-
Future income tax asset	185,865	502,722	-	-	-	-
Property and equipment	633,855	895,072	248,888	270,510	358,508	323,810
Intangible asset	14,583	39,583	64,583	75,000	100,000	-
	$ 4,528,820	**$ 4,462,471**	**$ 3,740,609**	**$ 3,959,126**	**$ 3,536,614**	**$ 4,634,563**
LIABILITIES						
Current liabilities						
Accounts payable and accrued liabilities	$ 4,502,882	$ 4,027,722	$ 3,785,955	$ 4,205,739	$ 3,036,934	$ 6,103,460
Loans payable	676,453	790,354	1,948,935	1,475,000	1,475,000	-
Income tax payable	-	-	-	-	-	-
Future income tax liability	4,360	7,725	7,725	-	-	-
Current portion of long-term debt	110,313	196,415	436,600	423,960	423,960	60,920
Current portion of other payable	-	-	498,728	336,000	336,000	-
	5,294,008	5,022,216	6,677,943	6,440,699	5,271,894	6,164,380
Future income tax liability	-	5,916	11,242	-	-	-
Long-term debt	396,212	506,525	-	189,290	613,250	98,893
Due to Shareholder	-	-	-	-	-	-
Payable to parent company	838,466	1,078,431	-	-	-	-
Payable to public company	-	-	-	263,189	603,955	-
	6,528,686	6,613,088	6,689,185	6,893,178	6,489,099	6,263,273
SHAREHOLDERS' DEFICIENCY						
Capital stock	200	200	200	200	300	300
Deficit	(2,000,066)	(2,150,817)	(2,948,776)	(2,934,252)	(2,952,785)	(1,629,010)
	(1,999,866)	(2,150,617)	(2,948,576)	(2,934,052)	(2,952,485)	(1,628,710)
	$ 4,528,820	**$ 4,462,471**	**$ 3,740,609**	**$ 3,959,126**	**$ 3,536,614**	**$ 4,634,563**

SOURCE: Car-Tel's financial statements.

Schedule 9

DISTRIBUTIONS CAR-TEL INC.

GUIDELINE TRANSACTIONS

AS AT MARCH 31, 2010

ACQUISITION DATA

Target		**Cynergy Data**	**United Card Service**	**EasyCash**	**Gold Leaf Fin. Sol.**	**Tangarine**
Acquirer		**ComVest Group**	**GPN**	**Ingenico**	**Jack Henry & Ass.**	**Pivotal**
Announced		N/A	September 9, 2008	September 27, 2009	August 17, 2009	February 2009
Completed date of purchase		October 28, 2009	April 30, 2009	N/A	June 27, 2008	March 24, 2009
		U.S.	U.S.	EUR	U.S.	CAD
Total purchase price		$81,000,000	$120,000,000	$290,000,000	$60,500,000	$16,610,756

STATISTICS

Revenues		$12,900,000	$34,200,000	€ 85,700,000	$81,573,000	$6,775,051
EBITDA		N/A	$6,840,000	N/A	-$30,763,000	$155,419
EBIT		N/A	N/A	N/A	-$35,571,000	-$2,767,833
Employees		229	400	350	493	32

MULTIPLES

EV/revenue		6.28	3.51	3.38	0.74	2.45
EV/EBITDA		N/A	17.54	N/A	-1.97	106.88
EV/EBIT		N/A	N/A	N/A	N/A	N/A
Purchase price/employee		$353,712	$300,000	€ 828,571	$122,718	$519,086

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

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 Capitalized 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 Enterprise Value

Market Value of Equity plus the market value of all interest-bearing debt (short- and long-term) and the market value of any outstanding preferred shares.

A.13 Equity

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

A.14 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.15 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.16 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.17 Goodwill

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

A.18 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.19 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.20 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.21 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.22 Multiple

The inverse of the capitalization rate.

A.23 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.24 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.25 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.26 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.27 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.28 Risk-Free Rate

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

A.29 Risk Premium

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

A.30 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.31 Unsystematic Risk

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

A.32 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.33 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.34 Working Capital

The amount by which Current Assets exceed Current Liabilities.

APPENDIX B

CURRICULA VITAE OF VALUATORS

[REDACTED]