# SARATOGA ELECTRONIC SOLUTIONS INC.

## Management's Discussion and Analysis

### Six-month period ended September 30, 2011

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

This Management's Discussion and Analysis of Saratoga Electronic Solutions Inc. ("Saratoga" or the "Company") was prepared in accordance with Regulation 51-102 "Respecting Continuous Disclosure Obligations" and should be read in conjunction with the unaudited condensed consolidated financial statements and related notes thereto of the Company for the six-month periods ended September 30, 2011 and 2010. The Company files its condensed consolidated financial statements, press releases and other required disclosure documents on the SEDAR database at www.sedar.com.

The Company prepares its unaudited condensed consolidated financial statements on the basis of International Financial Reporting Standards ("IFRS"). Except where otherwise indicated, all financial information reflected herein is expressed in Canadian dollars.

This MD&A may contain information and declarations on the future performance of the Company that are by nature forward looking. These declarations reflect management's expectations regarding future events based on assumptions and uncertainties that are subject to the risk factors identified in the "Risks and Uncertainties" section of this MD&A. Readers are hereby cautioned.

The condensed consolidated unaudited financial statements and MD&A of the Company in respect of the six-month periods ended September 30, 2011 and 2010 were reviewed by the Audit Committee and approved by the Board of Directors of the Company on November 28, 2011.

## OVERVIEW

The Company is incorporated under the *Canada Business Corporations Act* and is listed on the TSX Venture Exchange under the symbol "SAR". The Company is headquartered in Montreal, Quebec, Canada.

### Business Overview

As at September 30, 2011, the Company had two significant business units which are described in more detail below: automated teller machines ("ATMs") and prepaid products.

All of the Company's business units operate solely in Canada. The accounting policies used to prepare the information by business segment are the same as those used to prepare the condensed consolidated financial statements of the Company.

## ATMs

The Company, through its subsidiary Saratoga ATM Corporation Inc. ("Saratoga ATM"), is in the business of placing and operating ATMs in Eastern Canada.

An ATM allows a bank customer to withdraw cash in convenient locations. The Company enters into placement agreements with merchants that host the ATMs. Depending on the terms of the placement agreement, the Company can earn both a surcharge and a network fee for transactions taking place at the ATM. Saratoga carries various models of ATMs that suit the diverse needs of the hosting merchants.

The Company's network consisted of approximately 450 ATM locations as of September 30, 2011, compared to approximately 415 ATM locations as of September 30, 2010, a year to year increase of 35 ATM locations. Approximately 15 ATM locations were added under the Company's contract with Ultramar and another 20 ATM locations were added to the Company's traditional ATM network.

## Prepaid products

The Company, through its subsidiary Car-Tel Distributions Inc. ("Car-Tel"), is in the business of distributing to consumers point-of-sale (POS) activated prepaid cellular telephone PINs and long distance calling cards, as well as offering retailers a variety of electronic gift card solutions. All of Car-Tel's electronic devices are connected to its proprietary server and database software through wireless or land-line wide area networks or through host-to-host connectivity.

Car-Tel offers a complete electronic gift card program to major product distributors across Canada. Customers are provided with the option of entering into a closed-loop distribution agreement, whereby the electronic gift cards are distributed to the customer's existing client base, or an open loop distribution agreement, whereby, in addition, the electronic gift cards are also distributed to Car-Tel's entire network of users of its various products.

The Company's network consisted of approximately 2,600 POS locations as of September 30, 2011, compared to approximately 2,960 POS locations as of September 30, 2010, a year to year decrease of 340 POS locations. The Company believes that POS location offerings in its traditional market have reached market maturity status.

A recent trend has developed whereby major service providers are reducing the margins of resellers of cellular phone cards and long distance cards. With the expiration, on March 31, 2011, of Car-Tel's exclusivity with Bell for the resale of long distance cards, Car-Tel's margin on this product has been reduced by 3%. Furthermore, as of August 1, 2011, Rogers and Fido have reduced the margins available on the sale of their cellular phone cards by 3%. These decreases have negatively impacted Car-Tel's operating profits in the second quarter 2012.

## Discontinued operations

On July 29, 2011, the Company entered into an agreement to sell its wholly-owned subsidiary Car-Tel, subject to the receipt of all requisite shareholder and regulatory approvals. Please see “Overview - Subsequent Event”. The sale of Car-Tel is probable, and is expected to qualify for recognition as a complete sale within the third quarter of fiscal 2012. As a result, Car-Tel was reported in the condensed consolidated financial statements of the Company for the period ended September 30, 2011 as a discontinued operation.

On June 30, 2011, the Company classified its ATM business segment long-lived assets as “held for sale” given that the Company has created a special committee of its Board of Directors which has been engaged in negotiations with a view to the sale of these assets. As a result, the ATM business segment long-lived assets were reported in the condensed consolidated financial statements of the Company for the period ended September 30, 2011 as a discontinued operation.

Statement of operations related to discontinued operations

| | **Six-month period ending,** | | | |
|---|---|---|---|---|
| | **September 30, 2011 Car-Tel** | **September 30, 2011 ATM** | **September 30, 2011 Total** | **September 30, 2010 Total** |
| | **$** | **$** | **$** | **$** |
| Revenues | 22,580,207 | 2,152,229 | 24,732,436 | - |
| Direct costs | 21,867,027 | 1,799,040 | 23,666,067 | - |
| Selling and administrative | 521,284 | 109,330 | 630,614 | - |
| Loss (gain) on disposition of property and equipment | 4,902 | (1,114) | 3,788 | - |
| Profit before net finance income | 186,994 | 244,973 | 431,967 | - |
| Net finance expenses | 44,792 | 68,987 | 113,779 | - |
| Income (loss) of discontinued operations before income taxes | 142,202 | 175,986 | 318,188 | - |
| Income taxes expense (recovery) | | | | |
| Net income taxes | - | - | - | - |
| Deferred income taxes | - | - | - | - |
| Net profit and comprehensive income for the period | 142,202 | 175,986 | 318,188 | - |

Statement of operations related to discontinued operations

| | Three-month period ending, | | | |
|---|---|---|---|---|
| | **September 30, 2011 Car-Tel** | **September 30, 2011 ATM** | **September 30, 2011 Total** | **September 30, 2010 Total** |
| | **$** | **$** | **$** | **$** |
| Revenues | 11,226,360 | 1,119,342 | 12,345,702 | - |
| Direct costs | 10,885,188 | 936,625 | 11,821,813 | - |
| Selling and administrative | 263,475 | 64,169 | 327,644 | - |
| Loss (gain) on disposition of property and equipment | 4,902 | (1,114) | 3,788 | - |
| Profit before net finance income | 72,795 | 119,662 | 192,457 | - |
| Net finance expenses | 21,319 | 36,036 | 78,294 | - |
| Income (loss) of discontinued operations before income taxes | 51,476 | 83,626 | 114,163 | - |
| Income taxes expense (recovery) | | | | |
| Net income taxes | - | - | - | - |
| Deferred income taxes | - | - | - | - |
| Net profit and comprehensive income for the period | 51,476 | 83,626 | 114,163 | - |

Assets held for sale related to discontinued operations

| | **September 30, 2011 Car-Tel** | **September 30, 2011 ATM** | **September 30, 2011 Total** |
|---|---|---|---|
| | **$** | **$** | **$** |
| Trade receivables | 2,014,315 | - | 2,014,315 |
| Inventories | 683,881 | - | 683,881 |
| Prepaid expenses | 34,057 | - | 34,057 |
| Equipment | 394,688 | 923,292 | 1,317,980 |
| **Assets held for sale** | 3,126,941 | 923,292 | 4,050,233 |

| | | | |
|---|---|---|---|
| Bank indebtedness | 1,213,643 | - | 1,213,643 |
| Trade payable and accrued liabilities | 3,185,250 | - | 3,185,250 |
| Provisions | 30,000 | - | 30,000 |
| Loans payable | 100,000 | - | 100,000 |
| Long-term debt | 1,012,099 | - | 1,012,099 |
| **Liabilities held for sale** | 5,540,992 | - | 5,540,992 |

## Money remittance

On October 26, 2006, the Company entered into a Memorandum of Agreement (the "MOA") with Union Bank of the Philippines ("UnionBank") in order to commercialize and distribute Saratoga's electronic remittance system (the "SES System Software" or "the System") and to provide Saratoga with the exclusive Canadian rights to the money remittance business of UnionBank for a period of five years.

Pursuant to the MOA, Saratoga assumed the ultimate responsibility for the development of an electronic infrastructure that permitted Automated Clearing House remittance of funds designed to enable persons residing in Canada to electronically transfer funds to persons residing in the Philippines. This service targeted the needs of the Canadian Filipino community to send funds to the Philippines in an economical, secure and efficient manner.

On July 6, 2009, the Company announced its decision to abandon the System after determining there to be limited prospects of generating sufficient operating revenue in order to offset the costs associated with completing the launch of this System. On March 17, 2010, the Company ceased its System's operations. Subsequently, in May 2010, at the request of UnionBank, the Company agreed to resume its System's operations until such time as the parties are able to transfer the operations to a third party. UnionBank has since agreed to itself acquire SES System Software for the sum of $125,000 subject to the completion of a due diligence review of the Company's SES System Software.

On October 7, 2011, a SALE and PURSHASE AGREEMENT by and between the Company and UnionBank was completed. The Company as the registered owner of the SES System Software has deemed it in the best interest of the Company to sell, transfer and assign all its rights over SES System Software to UnionBank. UnionBank is interested to acquire the SES System Software which will be integrated to the existing UBP Pinoy Money card system. The Company received on November 18, 2011 the sum of $125,000 as per the SALE and PURSHASE AGREEMENT.

## Going concern

The condensed consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

A number of unfavourable conditions and events have left some doubt as to the appropriateness of this assumption. The Company incurred continued operating losses resulting in its non-compliance with certain financial debt covenants required by the financial institution relating to the bank advances and term loans. At September 30, 2011, the lender has waived these violations and, while the lender has not called its bank advances and the term loans, these term loans have been classified as a current liability in the accompanying condensed consolidated financial position because the lender can demand payment if the Company's economic condition worsens. The Company's condensed consolidated working capital and equity are deficient.

The Company's ability to continue as a going concern is dependent upon its ability to restore itself to profitability and positive cash flows. Management is focusing on strategic changes in its prepaid business segment and is closely monitoring its discretionary expenses. In its ATM business segment, the Company will need to obtain new forms of long-term debt to replace existing credit facilities that are in breach of its current bank covenants.

The carrying amounts of assets, liabilities, revenues and expenses presented in the condensed consolidated financial statements and the statements of financial position classification have not been adjusted as would be required if the going concern assumption was not appropriate.

## Normal course issuer bid

The TSX Venture Exchange ("TSX-V") accepted the Company's Notice of Intention to make a Normal Course Issuer Bid ("NCIB"). Pursuant to the NCIB, the Company could, from time to time, purchase through the facilities of the TSX-V up to an aggregate of 932,415 of its common shares, being approximately 5% of the Company's issued and outstanding common shares as of May 12, 2010. Given the initiation by the Company of a process to explore and consider possible strategic alternatives for enhancing shareholder value, purchases of shares pursuant to the NCIB were suspended in December 2010.

During the year ended March 31, 2011, the Company repurchased for cancellation 187,000 of its shares for a total consideration of $24,550 under the NCIB. At March 31, 2011, these shares were held as treasury shares. These treasury shares were cancelled on

May 27, 2011 and original costs in an amount of $6,380 was written off, thus reducing share capital, offset against contributed surplus.

## Subsequent event

### Sale of Car-Tel

The Company announced that on July 29, 2011 that it had entered into an agreement to sell its Car-Tel subsidiary to a member of the management of Car-Tel for a purchase price of approximately $1.36 million, to be paid through a combination of cash and the settlement of certain specified liabilities. This transaction results from the previously announced strategic review undertaken by the Company.

#### *Description of the transaction*

The purchase price of the shares of Car-Tel will be approximately $1.36 million, which will be paid by way of a cash payment of approximately $1.2 million and the forgiveness of a debt due by Saratoga ATM to Car-Tel of approximately $0.16 million. Additionally, at closing, Car-Tel will pay its debt due to Saratoga Leasing Inc. in the amount of approximately $0.3 million.

Furthermore, in the event that an end user charge is implemented in relation to the distribution of prepaid cellular, long distance or gift cards within the next two years, the Company will be entitled to a fee equal to 9% of such charge for each prepaid cellular, long distance or gift cards distributed during the 36 month period following the implementation of such charge.

#### *Reasons for the transaction*

Management of the Company believes that the prepaid cellular and long distance market reached maturity in 2010, with sales having declined on a quarterly basis since such time. The decline in the number of POS machines in Car Tel's network, as well as in the overall number of transactions, is indicative of end users using other methods of communications. Furthermore, in the last four-month period, three prepaid cellular or long distance service providers have reduced the margins on their products by 3%, which is expected to directly impact future cash-flows generated by Car-Tel. The Company has therefore concluded that it is in the best interest of shareholders for the Company to exit the prepaid cellular, long distance and gift card business segment.

#### *Effect on the Company*

The Company will use the approximately $1.2 million in cash which it expects to receive as a result of this transaction to reduce long-term debt by approximately $0.7

million and to provide working capital of approximately $0.5 million. The Company's consolidated long-term debt will be reduced by a further approximately $0.3 million as a result of the repayment by Car-Tel of the debt due to Saratoga Leasing Inc.

***Closing the transaction***

Further to its earlier announcements, the Company has entered into a definitive share purchase agreement (the "Purchase Agreement") pursuant to which it has agreed to sell all of the shares of its wholly-owned subsidiary Car-Tel Distributions Inc. ("Car-Tel") to 7999291 Canada Inc., a corporation controlled by Luc Charlebois, a shareholder and director of Saratoga and an officer of Car-Tel (the "Transaction"). Saratoga also announces that it has mailed its notice of meeting and management information circular (the "Information Circular") dated November 17, 2011 in connection with its upcoming annual and special meeting (the "Meeting") at which the holders of Saratoga's common shares (the "Shareholders") will be asked to approve, among other matters, the Transaction. The Meeting is scheduled to be held at 2:00 p.m. (Eastern time) on December 15, 2011, at Saratoga's head office, located at 2975 Hochelaga, Montreal, Québec H1W 1G1.

The Information Circular contains details concerning the Transaction, the Purchase Agreement, voting at the Meeting and other related matters. Shareholders are urged to carefully review the Information Circular and accompanying materials (collectively, the "Meeting Materials") as they contain important information regarding the Transaction.

Copies of the Meeting Materials and the Purchase Agreement are available electronically under Saratoga's profile on the SEDAR website (www.sedar.com).

## Quarterly results

| Quarter | Revenues | Net earnings (loss) | Net earnings(loss) per share - basic and diluted |
|---|---|---|---|
| | **$** | **$** | **$** |
| | | | |
| *Year ended March 31, 2012* | | | |
| Second Quarter | 12,359,979 | 43,941 | 0.00238 |
| First Quarter | 12,401,012 | 118,589 | 0.00641 |
| | | | |
| *Year ended March 31, 2011* | | | |
| Fourth Quarter | 11,405,385 | (1,528,214) | (0.08255) |
| Third Quarter | 13,345,085 | (378,337) | (0.02042) |
| Second Quarter | 15,082,148 | (4,718) | (0.00025) |
| First Quarter | 15,061,246 | 78,182 | 0.00420 |
| | | | |
| *Year ended March 31, 2010* | | | |
| Fourth Quarter (1) | 13,266,982 | (604,498) | (0.03241) |
| Third Quarter (1) | 13,596,561 | (226,021) | (0.01212) |
| Second Quarter (1) | 14,323,183 | (144,480) | (0.00775) |

(1) Results for quarters ended September 30, 2009, December 31, 2009 and March 31, 2010 are recorded in accordance with Canadian GAAP.

**Note**: For comparative purpose, the total revenue, net income (loss) and EPS in this chart included continuing and discontinued operations.

The following table summarizes certain financial data related to the Company and should be read in conjunction with the Company's unaudited condensed consolidated financial statements for the Six-month and three-month periods ended September 30, 2011, 2010 and 2009.

| | **Three-month period ended** | | | **Six-month period ended** | | |
|---|---|---|---|---|---|---|
| | 2011 (unaudited) | 2010 (unaudited) | 2009 (unaudited) | 2011 (unaudited) | 2010 (unaudited) | 2009 (unaudited) |
| | $ (except for share information) | $ (except for share information) | $ (except for share information) | $ (except for share information) | $ (except for share information) | **$** (except for share information) |
| | | | | | | |
| Total assets | **6,510,412** | 9,325,445 | 9,745,326 | **6,510,412** | 9,325,445 | 9,745,326 |
| Bank loans | **1,476,545** | 1,750,420 | 1,621,800 | **1,476,545** | 1,750,420 | 1,621,800 |
| Long-term debt – continuing activities | **629,775** | 2,175,842 | 1,969,812 | **629,775** | 2,175,842 | 1,969,812 |
| Long-term debt – discontinued activities | **1,012,099** | - | - | **1,012,099** | - | - |
| | | | | | | |
| Revenue | **14,277** | 15,082,148 | 14,323,183 | **28,555** | 30,143,394 | 28,051,606 |
| Operating profit (loss) | **(62,821)** | 94,588 | (62,279) | **(124,198)** | 280,597 | (203,567) |
| | | | | | | |
| Net finance expenses | **20,939** | 99,306 | 92,482 | **48,222** | 207,133 | 188,045 |
| | | | | | | |
| Profit (loss) before income taxes | **(83,760)** | (4,718) | (154,761) | **(172,420)** | 73,464 | (391,612) |
| Income taxes expense (recovery) | **7,401** | **-** | (10,281) | **(16,762** | **-** | (10,281) |
| Net income (loss) from continuing activities | **(91,161)** | (4,718) | (144,480) | **(155,658)** | 73,464 | (381,331) |
| Net income (loss) from discontinued activities | **135,102** | **-** | **-** | **318,188** | **-** | **-** |
| **Net profit and comprehensive income** | **43,941** | (4,718) | (144,480) | **162,530** | 73,464 | (381,331) |
| Earnings per share basic | **0.00238** | (0.00026) | (0.00775) | **0.00880** | 0.00398 | (0.02045) |
| Earnings per share diluted | **0.00237** | (0.00026) | (0.00775) | **0.00876** | 0.00392 | (0.02045) |
| **Weighted average number of common shares outstanding** | | | | | | |
| Basic | **18,461,300** | 18,472,300 | 18,648,300 | **18,461,300** | 18,472,300 | 18,648,300 |
| Diluted | **18,551,300** | 18,472,300 | 18,648,300 | **18,551,300** | 18,752,300 | 18,648,300 |

## Results of operations

## Revenues

Revenues based on segmented information for the three-month period ended September 30, 2011 decreased to $12,359,979 from $15,082,148 for the three-month period ended September 30, 2010, representing a year-over-year decrease of $2,722,169 (18.05%). The decrease in revenues was a direct result of the decrease of $2,777,429 (19.83%) in prepaid products segment revenues and of $1 in corporate items, offset by an increase of $55,261 (5.19%) in ATM segment revenues.

Total revenues from the ATM business (Saratoga ATM) were $1,119,342 for the three-month period ended September 30, 2011, compared to $1,064,081 for the three-month period ended September 30, 2010. The year-over-year revenue increase in the ATM segment is $55,261 (5.19%), mostly attributable to increased number of total transactions. The number of ATM locations is 452 as at September 30, 2011, compared to 413 ATM locations as at September 30, 2010, representing an increase of 39 ATM locations during the year. The number of transactions per ATM location is 913 for the period ended September 30, 2011, compared to 964 for the period ended September 30, 2010, representing a decrease of 51 per ATM location.

Total revenues from the prepaid products business were $11,226,360 for the three-month period ended September 30, 2011, compared to $14,003,789 for the three-month period ended September 30, 2010. The year-over-year revenue decrease in the prepaid products segment is $2,777,429 (19.83%), mostly attributable to decreased number of POS machine locations and transactions per POS machine locations. The number of POS machine locations is 2,601 as at September 30, 2011, compared to 2,958 POS machine locations as at September 30, 2010, representing a decrease of 357 POS machine locations during the period. The number of transactions per ATM location is 266 for the period ended September 30, 2011, compared to 300 for the period ended September 30, 2010, representing a decrease of 34 per POS machine location. Furthermore, the decrease is accentuated by the decrease of 3% in gross margins since August 1, 2011 of 2 service providers.

Revenues based on segmented information for the six-month period ended September 30, 2011 decreased to $24,760,991 from $30,143,394 for the six-month period ended September 30, 2010, representing a year-over-year decrease of $5,382,403 (17.86%). The decrease in revenues was a direct result of the decrease of $5,412,891 (19.34%) in prepaid products segment revenues, offset by an increase of $30,488 (1.44%) in ATM segment revenues.

Total revenues from the ATM business (Saratoga ATM) were $2,152,229 for the six-month period ended September 30, 2011, compared to $2,121,741 for the six-month period ended September 30, 2010. The year-over-year revenue increase in the ATM segment is $30,488 (1.44%), mostly attributable to increased number of total transactions. The average number of ATM locations is 451 for the six-month period

ended September 30, 2011, compared to 403 ATM locations for the six-month period ended September 30, 2010, representing an increase of 48 ATM locations. The number of transactions per ATM location is 1,773 for the period ended September 30, 2011, compared to 1,965 for the period ended September 30, 2010, representing a decrease of 191 per ATM location.

Total revenues from the prepaid products business were $22,580,207 for the six-month period ended September 30, 2011, compared to $27,993,098 for the six-month period ended September 30, 2010. The year-over-year revenue decrease in the prepaid products segment is $5,412,891 (19.34%), mostly attributable to decreased number of POS machine locations and transactions per POS machine locations. The average number of POS machine locations is 2,624 for the six-month period ended September 30, 2011, compared to 2,984 POS machine locations for the six-month period ended September 30, 2010, representing a decrease of 360 POS machine locations during the six-month period. The number of transactions per ATM location is 535 for the six-month period ended September 30, 2011, compared to 599 for the six-month period ended September 30, 2010, representing a decrease of 63 per POS machine location. Furthermore, the decrease is accentuated by the decrease of 3% in gross margins since April 1 of one service provider and since August 1, 2011 of 2 service providers.

## Direct costs

Direct costs for the three-month period ended September 30, 2011 decreased to $11,821,813 from $14,241,034 for the three-month period ended September 30, 2010, representing a year-over-year decrease of $2,419,221 (16.99%). The decrease in direct costs was a direct result of the decrease of $2,501,747 (18.69%) in prepaid products segment, offset by an increase of $82,526 (9.66%) in ATM segment. The direct costs decrease in the prepaid products segment and ATM segment are in line with decreases in same segments as explained in revenues.

Direct costs for the six-month period ended September 30, 2011 decreased to $23,666,067 from $28,493,621 for the six-month period ended September 30, 2010, representing a year-over-year decrease of $4,827,554 (16.94%). The decrease in direct costs was a direct result of the decrease of $4,903,050 (18.32%) in prepaid products segment, offset by an increase of $75,496 (4.38%) in ATM segment. The direct costs decrease in the prepaid products segment and ATM segment are in line with decreases in same segments as explained in revenues.

## Selling and administrative expenses

Selling and administrative expenses for the three-month period ended September 30, 2011 were $378,097, compared to $493,202 for the three-month period ended September 30, 2010. Selling and administrative expenses decreased year-over-year by $115,105 (23.34%). This year-over-year decrease of $115,105 is explained by an increase in insurance expense of $13,287 (168.72%), in utilities expense of $3,066 (27.67%), offset by a decrease in office expenses of $3,958 (10.80%), in professional fees of $36,953

(31.65%), in office salaries and benefits of $57,659 (27.30%), in selling expenses of $32,192 (36.91%) and approximately in other expenses of $696.

Selling and administrative expenses for the six-month period ended September 30, 2011 were $768,296, compared to $862,024 for the six-month period ended September 30, 2010. Selling and administrative expenses decreased year-over-year by $93,728 (10.87%). This year-over-year decrease of $93,728 is explained by an increase in insurance expense of $19,977 (116.73%), in utilities expense of $2,209 (9.58%) and approximately in other expenses of $449, offset by a decrease in office expenses of $16,219 (18.98%), in professional fees of $18,277 (10.09%), in office salaries and benefits of $46,279 (12.78%), in selling expenses of $35,588 (23.65%).

## Depreciation of property, equipment

Depreciation of property, equipment reported from continuing operations for the six-month period ended September 30, 2011 decreased to $20,911 from $202,831 for the six-month period ended September 30, 2010, representing a year-over-year decrease of $181,920 (89.69%). The amount of $20,911 represents the depreciation of the 2975 Hochelaga, Montreal building in in the amount of $19,555 and of $1,361 in furniture and computers.

Depreciation of property, equipment reported from discontinued operations for the six-month period ended September 30, 2011 was nil (2010 – Nil). Under discontinued operations policies, no depreciation of assets are accounted for.

## Amortization of intangible assets

Amortization of intangible assets from continuing operations for the six-month period ended September 30, 2011 decreased to nil from $292,500 for the six-month period ended September 30, 2010, representing a year-over-year decrease of $292,500 (100.00%). All remaining intangible assets were amortized by year-end March 31, 2011.

## Money remittance costs

Money remittance costs reported from continuing operations for the three-month period ended September 30, 2011 decreased to $3,362 from $4,095 for the three-month period ended September 30, 2010, representing a year-over-year decrease of $733 (17.90%). The money remittance costs represent maintenance costs of the money remittance network.

Money remittance costs reported from continuing operations for the six-month period ended September 30, 2011 decreased to $4,662 from $11,821 for the six-month period ended September 30, 2010, representing a year-over-year decrease of $7,159 (60.56%). The money remittance costs represent maintenance costs of the money remittance network.

## Strategic revision process costs

Strategic revision process costs reported from continuing operations for the three-month period ended September 30, 2011 increased to $12,828 (2010 – Nil), representing a year-over-year increase of $12,828 (100.00%). The strategic revision process costs include professional and legal fees for the strategic revision process.

Strategic revision process costs reported from continuing operations for the six-month period ended September 30, 2011 increased to $26,653 (2010 – Nil), representing a year-over-year increase of $26,653 (100.00%). The strategic revision process costs include professional and legal fees for the strategic revision process.

## Insurance claim

Insurance claim reported from continuing operations for the six-month period ended September 30, 2011 increased to $37,144 (2010 – Nil), representing a year-over-year increase of $37,144 (100.00%). The insurance claim was in the amount of $72,155, offset entirely by the expenses already incurred in the previous fourth quarter 2011 and a provision for repairs to the 2975 Hochelaga, Montreal building of $35,000. The insurance claim received is due to a spring flooding in March 2011.

## Finance costs

Finance costs for the three-month period ended September 30, 2011 decreased to $78,294 from $99,306 for the three-month period ended September 30, 2010, representing a year-over-year decrease of $21,012 (21.16%). The decrease in finance costs was a direct result of the decrease of $1,510 (4.02%) in ATM segment, of $10,724 (33.47%) in prepaid products segment and of $8,778 (29.54%) in corporate items.

Finance costs for the six-month period ended September 30, 2011 decreased to $162,001 from $207,133 for the six-month period ended September 30, 2010, representing a year-over-year decrease of $45,132 (21.79%). The decrease in finance costs was a direct result of the decrease of $8,981 (11.52%) in ATM segment, of $23,127 (34.05%) in prepaid products segment and of $13,024 (21.27%) in corporate items.

## Operating income before income taxes

The operating income before income taxes for the three-month period ended September 30, 2011 increased to $51,342 from a loss of $4,717 for the three-month period ended September 30, 2010, representing a year-over-year increase of $56,059 (1,188.45%). The increase in operating income before income taxes was a direct result of an increase of $21,287 (21.31%) in the ATM segment and of $54,735 (50.32%) in corporate items, offset by the decrease of $19,963 (19.29%) in prepaid products segment.

The operating income before income taxes for the six-month period ended September 30, 2011 increased to $145,768 from $73,464 for the six-month period ended September 30, 2010, representing a year-over-year increase of $72,304 (98.42%). The increase in operating income before income taxes was a direct result of an increase of $47,194 (36.64%) in the ATM segment and of $79,632 (31.59%) in corporate items, offset by the decrease of $54,522 (27.71%) in prepaid products segment.

## Income taxes

Income taxes expense reported from continuing operations for the three-month period ended September 30, 2011 increased to $7,401 (2010 – Nil) representing a year-over-year increase of $7,401 (100.00%). Income taxes expense of $7,401 is explained by the provision for income taxes in the amount of $7,202 and by the net change in deferred income tax expense of $199 taken into account for the future sale ATM assets.

Income taxes recovery reported from continuing operations for the six-month period ended September 30, 2011 increased to $16,762 (2010 – Nil) representing a year-over-year increase of $16,762 (100.00%). The recovery of $16,762 is explained by a deferred income tax asset recovery in the amount of $67,250 being accounted for by the Company in view of the sale of Car-Tel, offset by the net change in deferred income tax expense of $43,286 taken into account for the future sale ATM assets, offset by the provision for income taxes in the amount of $7,202.

## Net profit from assets of discontinued activities

Net profit from assets held for sale reported from discontinued operations for the three-month period ended September 30, 2011 was $135,012 (2010 – Nil). This increase of $135,012 (100.00%) is mainly explained by the net profit of $51,476 for Car-Tel and of $83,626 for Saratoga ATM.

Net profit from assets held for sale reported from discontinued operations for the six-month period ended September 30, 2011 was $318,188 (2010 – Nil). This increase of $318,188 (100.00%) is mainly explained by the net profit of $142,202 for Car-Tel and of $175,986 for Saratoga ATM.

## Net profit (loss) and comprehensive income

The Company realized a net profit for the three-month period ended September 30, 2011 of $43,941, compared to a net loss for the three-month period ended September 30, 2010 of $4,718, representing an increase in net profit of $48,659 (1,031.35%).

The Company realized a net profit for the six-month period ended September 30, 2011 of $162,530, compared to the six-month period ended September 30, 2010 of $73,464, representing an increase in net profit of $89,066 (121.24%).

## Profit per share

The profit per share - basic and diluted for the three-month period ended September 30, 2011 was $0.00238 and $0.00237, respectively, compared to a loss per share - basic and diluted for the three-month period ended September 30, 2010 of $0.00026 and $0.00026, respectively, calculated on a basic weighted average number of 18,461,300 outstanding common shares at September 30, 2011 (2010 - 18,472,300) and calculated on a diluted weighted average number of 18,551,300 outstanding common shares at September 30, 2011 (2010 - 18,472,300).

The profit per share - basic and diluted for the six-month period ended September 30, 2011 was $0.00880 and $0.00876, respectively, compared to a loss per share - basic and diluted for the six-month period ended September 30, 2010 of $0.00398 and $0.00392 respectively, calculated on a basic weighted average number of 18,461,300 outstanding common shares at September 30, 2011 (2010 - 18,472,300) and calculated on a diluted weighted average number of 18,551,300 outstanding common shares at September 30, 2011 (2010 - 18,752,300).

## CHANGE IN FINANCIAL POSITION

The following table summarizes certain financial data related to the Company and should be read in conjunction with the Company’s audited consolidated financial statements for the six-month periods ended September 30, 2011 and 2010.

| | For the three-month period ended | | For the six-month period ended | |
|---|---|---|---|---|
| | September 30, 2011 (unaudited) | September 30, 2010 (unaudited) | September 30, 2011 (unaudited) | September 30, 2010 (unaudited) |
| | $ | $ | $ | $ |
| | | | | |
| Cash flow (used in) from continuing operations | (1,285) | (70,359) | (119,639) | (65,683) |
| Cash flow (used in) from discontinued operations | 249,241 | - | (39,475) | - |
| | | | | |
| Cash flow from (used in) investing from continuing activities | - | (21,735) | - | (27,289) |
| Cash flow from (used in) investing discontinued activities | (5,499) | - | (36,747) | - |
| | | | | |
| Cash flow (used in) from financing continuing activities | (210,301) | (227,967) | (295,039) | (558,982) |
| Cash flow (used in) from financing discontinued activities | (163,704) | - | 916,070 | - |
| | | | | |
| Net increase (decrease) in cash and cash equivalents | (131,548) | (320,062) | 425,170 | (651,954) |

## Operating activities

Cash flows used in continuing operating activities were $1,285 for the three-month period ended September 30, 2011, compared to cash flows used of $70,359 for the three-month period ended September 30, 2010. The decrease of $69,074 (98.17%) in cash flows used from operating activities is primarily attributable to a decrease of net loss of $86,443 (1,832.20%) and an increase in non-cash working capital items of $394,092 (125.16%), offset by a decrease in generated cash flow from non-working capital adjustments of $238,575 (95.73%). The variances in cash-flow from continuing operations are as of September 30, 2011, compared to September 30, 2010, are explained mainly by discontinued operations being accounted for separately.

Cash flows generated in discontinued operating activities for the three-month period ended September 30, 2011 were $249,241 (2010 – Nil). The increase of $249,241 in cash flows generated from discontinued operating activities is primarily attributable to a net income of $135,104 and an increase in non-cash working capital items of $110,349, offset by an decrease in generated cash flow from non-working capital adjustments of $3,788.

Cash flows used in continuing operating activities were $119,639 for the six-month period ended September 30, 2011, compared to cash flows used of $65,683 for the six-month period ended September 30, 2010. The increase of $53,956 (82.15%) in cash flows used from operating activities is primarily attributable to an increase of net loss of $229,122 (311.88%) and an increase in non-cash working capital items of $673,550 (106.16%), offset by an decrease in generated cash flow from non-working capital adjustments of $498,384 (100.62%). The variances in cash-flow from continuing operations are as of September 30, 2011, compared to September 30, 2010, are explained mainly by discontinued operations being accounted for separately.

Cash flows used in discontinued operating activities for the six-month period ended September 30, 2011 were $39,475 (2010 – Nil). The increase of $39,475 in cash flow used from discontinued operating activities is primarily attributable to a net income of $318,188 and an increase in non-cash working capital items used of $361,451, offset by an decrease in generated cash flow from non-working capital adjustments of $3,788.

## Investing activities

Cash flows used in investing activities of continuing activities were nil for the three-month period ended September 30, 2011, compared to cash flows used in investing activities for the three-month period ended September 30, 2010 in the amount of $21,736.

Cash flows used in investing activities of discontinued activities were $5,499 for the three-month period ended September 30, 2011 (2010 – Nil). The cash flow used in investing activities of discontinued activities is mainly explained by the acquisition of $9,000 in equipment, offset by generated proceeds of disposition of equipment of $3,501.

Cash flows used in investing activities of continuing activities were nil for the six-month period ended September 30, 2011, compared to cash flows used in investing activities for the six-month period ended September 30, 2010 in the amount of $27,289.

Cash flows used in investing activities of discontinued activities were $36,747 for the six-month period ended September 30, 2011 (2010 – Nil). The cash flow used in investing activities of discontinued activities is mainly explained by the acquisition of $40,248 in equipment, offset by generated proceeds of disposition of equipment of $3,501.

## Financing activities

Cash flows used in financing activities of continuing activities were $210,301 for the three-month period ended September 30, 2011, compared to cash flows used of $227,967 for the three-month period ended September 30, 2010. This decrease of $17,666 (7.75%) used in financing activities is mainly explained by an increase in repayment of bank loans

of $101,355 (387.15%), in a decrease in loans payable of $50,000 (100.00%), in a decrease in redemption of common shares of $13,750 (100.00%) and in redemption of preferred shares held by non-controlling interest of $37,500 (100.00%) and in the decrease in repayment of long-term debt of $17,771 (17.68%).

Cash flows used in financing activities of discontinued activities were $163,704 for the three-month period ended September 30, 2011 (2010 –Nil). The decrease in Cash flows used in financing activities of discontinued activities is mainly explained by the decrease in bank indebtedness of $107,082 and in repayment of long-term debt of $56,622.

Cash flows used in financing activities of continuing activities were $295,039 for the six-month period ended September 30, 2011, compared to cash flows used of $558,982 for the six-month period ended September 30, 2010. This decrease of $263,943 (47.22%) used in financing activities is mainly explained by an increase in repayment of bank loans of $78,455 (124.22%), in a decrease in repayment of loans payable of $250,000 (100.00%), in a decrease in redemption of common shares of $24,400 (100.00%) and in redemption of preferred shares held by non-controlling interest of $75,000 (100.00%), in the decrease in repayment of long-term debt of $48,850 (24.15%) and in a decrease in proceeds from new long-term loans of $55,852 (100.00%).

Cash flows generated in financing activities of discontinued activities were $916,070 for the six-month period ended September 30, 2011 (2010 –Nil). The increase in Cash flows generated in financing activities of discontinued activities is mainly explained by the bank indebtedness of $1,213,643 of Car-Tel as liability held for sale, offset by the repayment of long-term debt of $222,573 and by the repayment of loans payable of $75,000.

## BALANCE SHEET

The total assets of the Company amounted to $6,510,412 as at September 30, 2011, compared to $6,603,527 as at March 31, 2011, representing an increase of $93,115 (1.41%). This increase is mainly explained by the increase in trade receivable from related parties of $1,516 (22.07%), in deferred income tax of $50,994 (26.93%) and in assets held for sale of $4,050,233 (100.00%), offset by a decrease in cash in circulation in automated teller machines of $109,360 (10.86%), in trade receivable of $1,806,936 (96.48%), in inventories of $1,009,823 (100.00%), in prepaid expenses of $27,496 (58.68%) and in property and equipment of $1,305,932 (51.49%).

The Company’s current liabilities decreased by $4,842,006 (63.72%) as at September 30, 2011 to $2,757,304, compared to $7,599,310 as at March 31, 2011. The decrease of $4,842,006 in current liabilities is mainly explained by the decrease in bank indebtedness of $534,530 (88.15%), in bank loans of $141,615 (8.75%), in trade payable and accrued liabilities of $3,585,912 (87.53%), in income taxes payable of $4,323 (17.03%), in loans payable of $175,000 (100.00%) and in current portion of long-term debt of $406,434 (39.22%), offset by an increase trade payable to related parties of $808 (16.67%) and in provisions of $5,000 (16.67%).

Long-term liabilities decreased to $210,652 as at September 30, 2011, compared to $1,165,283 as at March 31, 2011. The decrease of $954,631 (81.92%) in long-term liabilities is explained by a decrease in long-term debt of $981,661 (100.00%), offset by an increase in deferred income tax of $27,030 (14.72%).

Liabilities held for sale increased by $5,540,992 (2010 – Nil). The discontinued operations of Car-Tel account for liabilities held for sale.

Continued activities long-term debt decreased to $629,775 as at September 30, 2011, compared to $2,017,870 as at March 31, 2011. The decrease of $1,388,095 (68.79%) in long-term debt is mainly explained by the decrease in obligations under capital leases of $62,348 (10.86%), in bank loans of $11,412 (12.77%), in a loan from majority shareholder and Chief Executive Officer Georges Durst of $58,463 (100.00%), in loans to companies under common control of $76,462 (15.84%), in loan to a company under the control of a former director of $89,351 (22.77%) and in net loans in discontinued operations of $1,012,099.

## Equity attributable to Shareholders'

Equity attributable to shareholders' increased to ($3,268,536) as at September 30, 2011, from ($3,431,066) as at March 31, 2011, a year over year increase of $162,530 (4.74%).

## Issued and outstanding share capital

As of November 28, 2011, the Company has a weighted average of 18,461,300 issued and outstanding voting participating common shares. In accordance with the Normal Course Issuer Bid, the Company has cancelled 187,000 issued and outstanding shares in its share capital.

Furthermore, the Company had previously granted stock options under the Company's share compensation plan to the Company's officers, directors and employees. The number of exercisable stock options outstanding as of November 28, 2011 is 90,000, at a weighted average exercise price of $0.27.

The Company has two series of preferred shares and is authorized to issue an unlimited number of these shares.

As of November 28, the Company has not issued any preferred shares.

## RELATED PARTY TRANSACTIONS

The Company has entered into the following transactions with related parties:

***Company under common control***

Until August 1, 2008, the Company leased POS machines from Saratoga Leasing Inc., a company owned by the Company's principal shareholder and Chief Executive Officer Georges Durst (leasing contracts were terminated as of July 31, 2008). As at September 30, 2011, the Company had loans payable to Saratoga Leasing Inc. in connection with the purchase from Saratoga Leasing Inc. of 1,271 POS machines. These loans generated accounts payable and accrued liabilities of $4,774 (2010 - $7,572) and an interest expense and financing fee of $30,419 for the six-month period ended September 30, 2011 (2010 - $45,430).

***Companies with common directors***

The Company leases office space to Saratoga Multi-Média Inc., a company related to the Company's principal shareholder and Chief Executive Officer Georges Durst, pursuant to a ten year lease. During the six-month period ended September 30, 2011, the Company realized rental income of $4,886 (2010 - $4,888) from such lease, and, as at September 30, 2011, the Company had a related account receivable of $2,784 (2010 - $2,759).

The Company leases office space to Maison du Jazz Inc., a company related to the Company's principal shareholder and Chief Executive Officer Georges Durst, pursuant to a ten year lease. During the six-month period ended September 30, 2011, the Company realized rental income of $4,646 (2010 - $4,646) from this lease, and, as at September 30, 2011, the Company had a related account receivable of $5,601 (2010 - $5,908). Furthermore, the Company bought services from Maison du Jazz, resulting in accounts payable and accrued liabilities in the amount of $327 (2010 – Nil).

As at September 30, 2011, the Company had loans payable to Saratoga Multi-Média Inc., a company related to the Company's principal shareholder and Chief Executive Officer Georges Durst, resulting in accounts payable and accrued liabilities in the amount of $3,908 (2010 – $4,461), and an interest expense of $24,286 for the six-month period ended September 30, 2011 (2010 - $26,766).

Until December 19, 2007, the Company leased office space from Saratoga Multi-Média Inc., a company related to the Company's principal shareholder and Chief Executive Officer Georges Durst, generating accounts payable and accrued liabilities of nil as at September 30, 2011 (2010 - $1,856).

***Directors***

The Company received professional services from the law firm of Seal Seidman S.E.N.C., a firm of which Donald Seal, a director of the Company, is a partner, resulting in accounts payable and accrued liabilities in the amount of $3,175 as at September 30, 2011 (2010 – Nil), and professional fees in the amount of $22,800 (2010 – $22,800) for the six-month period ended September 30, 2011.

The Company had loans payable to Don Seal, a director of the Company, as at September 30, 2011 and 2010 of nil, resulting in an interest expense for the six-month period ended September 30, 2011 of nil (2010 - $1,500).

The Company paid professional fees to 91040097 Québec Inc., a firm of which Martin Fontaine, a director of the Company, is an owner, in the amount of nil for the six-month period ended September, 2011 (2010 – $18,000).

***Compensation costs to key management personnel***

During the six-month period ended September, 2011, the Company paid director's fees in the amount of $8,000 (2010 – $8,000).

The Company paid key management compensation in the amount of $38,779 and $83,288 for the three-month and six-month periods ended September 30, 2011 and $34,935 and $62,690 for the three-month and six-month periods ended September 30, 2011 to Luc Charlebois, a director of the Company. These compensations were associated with is role as president of Car-Tel.

# OUTLOOK

The Company is engaged in the final sale of its subsidiary Car-Tel and the possible sale of its ATM assets of its subsidiary Saratoga ATM, that both combined, will change the Company's outlook. On July 29, 2011, the Company announced a proposed management buyout of its wholly-owned subsidiary Car-Tel. The Company's Special Committee has engaged into negotiations in view of the sale of the long-lived assets of its ATM business segment network. The future positive cash flow generated by these sales, if completed, will require further Board of Directors decisions for the future outcome of the Company.

## Off Balance Sheet Arrangements

To the best of management's knowledge, there are no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company.

## Change in Accounting Policies

### Transition to IFRS

The Company has adopted IFRS for its first quarter 2012 unaudited condensed consolidated interim financial statements. These financial statements, including 2011 comparative figures, are prepared in accordance with IFRS and IAS 34, *Interim Financial Reporting*. During the first quarter of 2012 year-end, management finalized its IFRS accounting policy choices. These accounting policies are consistent with those disclosed in the 2011 Annual Report and have been approved by the Company's Audit Committee. In addition, the Company has finalized its unaudited opening condensed consolidated financial position as well as the unaudited condensed financial statements for each of the 2011 quarters based on these accounting policies.

The Company has also completed changes to its internal controls over financial reporting and disclosure controls and procedures for IFRS, which included enhancement of existing controls and design and implementation of new controls, where needed. No material change in internal controls over financial reporting or disclosure controls and procedures resulted from the adoption and implementation of IFRS.

The Company's condensed consolidated financial statements were previously prepared in accordance with Canadian GAAP. Canadian GAAP differs from IFRS in certain respects. When preparing these IFRS financial statements, management made changes to certain recognition, measurement and consolidation methods that it previously applied to prepare its financial statements according to Canadian GAAP. Note 18 to the condensed consolidated financial statements for the three-month and six-month periods ended September 30, 2011 includes a reconciliation of each of the statement of financial position items as at September 30, 2010, and of net income and comprehensive income for the three-month and six-month periods ended September 30, 2010, as well as a description of the impact of the changeover from Canadian GAAP to IFRS on these items.

## Consolidated Reconciliation from Canadian GAAP to IFRS

## Reconciliation of equity

Equity at the date of transition and at September 30, 2010 and March 31, 2011 can be reconciled to the amounts reported under pre-changeover accounting standards as follows:

| | Note | April 1, 2010 $ | June 30, 2010 $ | March 31, 2011 $ |
|---|---|---|---|---|
| **Equity under Canadian GAAP** | | (1,573,429) | (1,524,365) | (3,431,066) |
| Transitional adjustments: | | | | |
| Non-controlling interest | | 1,382,500 | 1,307,500 | 1,270,000 |
| **Total equity under IFRS** | | (190,929) | (216,865) | (2,161,066) |

## Future Accounting Standards

The improvements to IFRS 2010 are the result of the International Accounting Standards Board's ("IASB") annual improvement project. This project has involved the IASB accumulating, throughout 2010, those improvements believed to be non-urgent, but necessary, and processing the amendments collectively. Effective dates, early adoption and transitional provisions are dealt with on a standard-by-standard basis with the majority of the amendments effective for the periods beginning on or after January 1, 2011, with early adoption permitted. The Company has adopted and reflected applicable amendments in its condensed consolidated financial statements.

The following new standards have been issued but are not yet applicable to the Company:

(i) IFRS 9 Financial Instruments:

Effective for annual periods beginning on or after January 1, 2013 (extended tentatively to January 1, 2015), with earlier adoption permitted.

As part of the project to replace IAS 39, *Financial Instruments: Recognition and Measurement*, this standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets. More specifically, the standard:

- Deals with classification and measurement of financial assets;
- Establishes two primary measurement categories for financial assets: amortized cost and fair value;
- Prescribes that classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset;
- Eliminates the existing categories: held to maturity, available for sale, and loans and receivables.

Certain changes were also made regarding the fair option for financial liabilities and accounting for certain derivatives linked to unquoted equity instruments.

The extent of the impact of adoption of this new standard has not been determined.

(ii) IFRS 10 Consolidated Financial Statements:

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements*, which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. If an entity applies this standard earlier, it shall also apply IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011) at the same time.

IFRS 10 replaces the guidance in IAS 27 *Consolidated and Separate Financial*

*Statements* and SIC-12 *Consolidation – Special Purpose Entities.* IAS 27 (2008) survives as IAS 27 (2011) *Separate Financial Statements*, only to carry forward the existing accounting requirements for separate requirements for separate financial statements.

IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPE's in the scope of SIC-12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 (2008).

The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning January 1, 2013. The Company does not expect IFRS 10 to have a material impact on its financial statements.

(iii) IFRS 12 Disclosure of Interest in Other Entities:

In May 2011, the IASB issued IFRS 12 *Disclosure of Interest in Other Entities*, which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. If an entity applies this standard earlier, it need not apply IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) at the same time.

IFRS 12 contains the disclosure requirements for entities that have interest in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structure entities.

The Company intends to adopt IFRS 12 in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect the amendments to have a material impact on its financial statements, because of the nature of the Company's interest in other entities.

(iv) IFRS 13 Fair Value Measurement:

In May 2011, the IASB published IFRS 13 *Fair Value Measurement*, which is effective prospectively for annual periods beginning on or after January 1, 2013. The disclosure requirements of IFRS 13 need not be applied in comparative information for periods before initial application.

IFRS 13 replaces the fair value measurement guidance contained in individual IFRS with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurement and, for

recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income.

IFRS 13 explains how to measure fair value when it is required or permitted by other IFRS. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

The Company intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on April 1, 2013. The Company does not expect IFRS 13 to have a material impact on its financial statements.

*(v) IAS 12 – Income Taxes:*

IAS 12 was amended on December 20, 2010 to remove subjectivity in determining on which basis an entity measures the deferred tax relating to an asset. The amendment introduces a presumption that an entity will assess whether the carrying value of an asset will be recovered through the sale of the asset. The amendment to IAS 12 is effective for reporting periods beginning on or after January 1, 2012.

The Company is currently evaluating the impact of this amendment to its financial statements.

## Use of estimates and judgement

The preparation of condensed consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Judgments made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the current and following fiscal years are discussed below:

- Trade receivable valuation - the recoverability of trade receivables;
- Inventory valuation - the provision for obsolescence of inventory;
- Estimated useful lives – the estimated useful lives of property, equipment and intangible assets and the related depreciation;
- Long-term debts – the inputs used in estimating fair value;

- Income taxes valuation – the provision for income tax recovery and the composition of deferred tax assets and liabilities;
- Share-based payments – the inputs used in accounting for share-based payment expense;
- Assets held for sale – the inputs used in accounting for assets held for sale;
- Impairment – the assessment on events or changes in circumstances that indicate that carrying value of property and equipment, including intangible assets and goodwill, may not be recoverable and the inputs used in the valuation of cash-generating units that include goodwill; and
- Contingencies – the input used in determining the various contingencies.

## Financial Instruments and other Instruments

Under IFRS, financial instruments are classified into one of the five categories: financial assets at fair value through profit or loss, held to maturity investments, loans and receivables, available-for-sale financial assets and other liabilities. The carrying values of the Company's financial instruments are classified into the following categories:

| | | September 30, 2011 | March 31, 2011 |
|---|---|---|---|
| | | $ | $ |
| | | | |
| Fair value through profit (loss) | (1) | (71,864) | (606,394) |
| Loans and receivables | (2) | - | - |
| Other financial liabilities | (3) | 8,170,371 | 7,944,577 |

(1) Includes cash and cash equivalents
(2) Includes trade receivable, other receivables and trade receivable from directors and related parties.
(3) Includes trade payable and accrued liabilities, trade payable to directors and related parties and short-term and long-term loans.

All financial instruments carried at fair value are categorized in three categories, defined below:

Level 1- Unadjusted quoted prices in active markets for identical assets or liabilities
Level 2- Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, and
Level 3- Inputs that are not based on observable market data

As at September 30, 2011, the Company held the following financial instruments measured at fair value:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| | | | | |
| Cash and cash equivalents | 826,036 | - | - | 826,036 |

During the six-month period ended September 30, 2011, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements. No transfers between any levels of the fair value hierarchy took place in the equivalent comparative period. There were no changes in the purpose of any financial asset that subsequently resulted in a different classification of that asset that subsequently resulted in a different classification of that asset.

The Company examines the various financial risks to which its operations are exposed. These risks may include credit risk, liquidity risk, currency risk and interest risk. Management reviews these risks on a periodic basis and when material, they are reviewed and monitored by the Board of Directors.

**Fair Value**

The carrying values of cash and cash equivalents, trade receivables, other receivables, trade payables and accrued liabilities and short-term loans approximate their fair values due to the short-term maturity of these instruments. Financial instruments also include receivables and payables from and to related parties. These balances are carried at exchange amount. It is impractical to determine to determine the fair value of due from related parties and due to related parties with sufficient reliability due to the nature of the financial instrument, the absence of a secondary market and the significant cost of obtaining external appraisals.

**Credit risk**

Financial instruments that potentially subject the Company to credit risk consist primarily of cash and cash equivalents held with banks as well as credit exposure on outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value of the financial assets.

The Company limits its exposure to credit loss by placing its cash and cash equivalents with high credit quality financial institutions. The Company manages credit risk from receivables by continuously monitoring the financial position of its customers and provides allowances for potentially uncollectible accounts receivable. The Company considers the existence of concentration of credit risk from receivable when an individual debtor is greater than 10% of the total accounts receivable balance. As at September 30,

2011, 91% (2010 – 93%) of the Company's income was derived from its prepaid products business unit, with approximately 28% (2010 – 28%) of the revenues generated from two major customers: Sobey's Inc. (13%) and Ultramar Corporation (15%). Trade receivables are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. As of September 30, 2011, the Company has provided $1,000 as the allowance for doubtful accounts (2010 $3,797).

**Liquidity risk**

Liquidity risk arises through an excess of financial obligations over available financial assets due at any point of time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point of time. The Company had a positive working capital of $826,036 as of September 30, 2011. The maximum exposure to liquidity risk is equal to the carrying value of the financial liabilities. All financial liabilities are short-term in nature and are repayable within 12 months.

The following are the contractual maturities of financial liabilities as at September 30, 2011:

| | Carrying amount | Contractual cash flows | 3 months or less | 3-12 months | 1-4 years |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| | | | | | |
| Short-term loan | 1,576,545 | (1,576,545) | (100,000) | - | (1,476,545) |
| Long-term loan | 1,641,874 | (1,641,874) | (1,069,699) | (142,462) | (429,713) |
| Trade payables and accrued liabilities | 3,729,370 | (3,729,370) | (3,729,370) | - | - |
| Total | 6,947,789 | (6,947,789) | (4,899,069) | (142,462) | (1,906,258) |

Based on the current obligations, the Company will require additional funding in the second half of the year ended March 31, 2012 and is currently in discussions of financing alternatives. The Company suspended till the closing of the sale Car-Tel, all reimbursements of long-term loans contracted by Car-Tel.

The Company's strategy for liquidity risk management was driven by external requirements from one of its lenders. The cash flow of the Company is supported by revolving operating lines of credit in the aggregate amount of $2,000,000 bearing interest at the Company's bank's prime rate plus 1% per annum, of which $1,476,545 was used as at September 30, 2011. The line of credit is secured by a hypothec on the universality of all property and receivables of the Company in the amount of $1,000,000 and a personal guarantee for $1,000,000 from the majority shareholder of the Company.

Under this line of credit, the Company must meet certain commitments and financial ratios. The ratios and requirements are monitored on an ongoing basis by management and require a subsidiary of the Company (on a standalone basis) to meet the following requirements:

- a minimum debt coverage ratio of 1.25 to 1
- a maximum debt to equity ratio of 1.5 to 1
- refrain from redeeming any preferred shares without obtaining the consent of the lender

As at September 30, 2011, the Company has not met any of these requirements. However, as of February 28, 2011, in order to satisfy the requirements of the lender, the Company ceased to redeem the non-controlling interest preferred shares in its subsidiary Saratoga ATM. In addition, the Company’s principal shareholder and Chief Executive Officer has injected $100,000 in Saratoga ATM for the purpose of reimbursing the line of credit owed to the lender, thereby reducing the line of credit available to the Company on a corresponding basis. As of November 28, 2011 the lender has agreed to waiver till September 30, 2011 and/or till the Company’s completed annual account revision. The Company’s annual account revision is in progress and should be completed in the third quarter 2012. The Company’s annual account revision includes a new debt structure that would be more suitable to the Company’s operations.

While the Company continues to seek alternative financing arrangements, it is not possible to predict whether these efforts will be successful. Moreover, there is no guarantee that the amount available under the line of credit will be sufficient to support the future working capital needs of the Company, or that the Company would be able, if required, to gain access to additional working capital.

**Interest rate risk**

The interest rate risk is the risk that the fair value of future cash flows of a financial instrument fluctuates because of changes in market interest rates. The Company’s interest risk exposure is a function of changes in the prime rate.

The Company is exposed to interest rate risk on its bank loans and long-term debt, bearing variable rates of interest. The Company has not entered into financial instruments to hedge against this risk. A 1% increase in the interest rate would have a negative net income effect for the six-month period ended September 30, 2011 of $7,770, based on amounts owed as at September 30, 2011.

## Risk factors

### New products and technology change risk

The Company operates in a competitive marketplace; there are no guarantees that the Company can maintain or expand its advantages.

There is a risk that another more attractive technology can become available and a new business model can emerge in connection with the Company's prepaid card business operated through Car-Tel. In order to mitigate against this risk, the Company continuously seeks to improve its devices and technology.

### New market risk

If the Company decides to pursue new business opportunities, it may require additional capital which may entail the issuance of shares and the sale of debt and equity securities. However, there can be no assurance that the Company will be able to raise the required capital to pursue such business opportunities.

### Economic conditions risk

The Company's prepaid products segment and ATM segment are each consumer product offerings. Although these products may be viewed as a necessity, they nevertheless remain items for which demand is subject to fluctuations in economic conditions. Consequently, a downturn in economic conditions could reduce consumer demand for the Company's product offerings, and could have a material adverse effect on the Company's business, revenues, financial position and operating results.

### Closing sale of Car-Tel risk

On July 29, 2011, the Company announced that it had entered into an agreement to sell Car-Tel to a member of the management of Car-Tel for a purchase price of approximately $1.36 million, to be paid through a combination of cash and the assumption of certain specified liabilities. However, the closing of this transaction is subject to a number of conditions, including the Company's upcoming annual and special meeting (the "Meeting") at which the holders of Saratoga's common shares (the "Shareholders") will be asked to approve, among other matters, the Transaction. The Meeting is scheduled to be held at 2:00 p.m. (Eastern Time) on December 15, 2011 and upon final vote, there is no guarantee that this transaction will be concluded.

## CONTINGENCIES

In 2006, former business associates of Car-Tel's director instituted proceedings in the amount of $1.6 million against Car-Tel for damages and lost profits due to an alleged improper use of proprietary technology used to deliver prepaid PINs for phone products and business contracts. The lawsuit is still pending as at October 5, 2011 and a counter claim in excess of $1.0 million has been taken against the plaintiffs. In the opinion of management, the likelihood of success of the claim is low and the amount recoverable pursuant to the claim is difficult to assess; however, the Company has submitted a settlement offer to the former business associates and, as a result, a provision of $30,000 has been reflected in the financial statements of the Company.

# INFORMATION COMMUNICATION CONTROLS AND PROCEDURES

Disclosure controls and procedures ("DC&P") are intended to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified by securities regulations and that information required to be disclosed is accumulated and communicated to management. Internal controls over financial reporting ("ICFR") are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian IFRS.

TSX Venture Exchange-listed companies are not required to provide representations in their annual and interim filings relating to the establishment and maintenance of DC&P and ICFR, as defined in National Instrument 52-109. In particular, the certifying officers do not make any representations relating to the establishment and maintenance of (a) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation, and (b) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's IFRS.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in their certificates regarding absence of misrepresentations and fair disclosure of financial information. Investors should be aware that inherent limitations on the ability of certifying officers of a TSX Venture Exchange-listed issuer to design and implement on a cost effective basis DC&P and ICFR as defined in National Instrument 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

**FORWARD-LOOKING STATEMENTS**

This report release contains certain forward-looking statements concerning our future operations, economic performance and financial condition. These statements are based on certain assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances. However, whether actual results and developments will conform to our expectations and predictions is subject to a number of risks, uncertainties and assumptions. Consequently, all of the forward-looking statements in this report are qualified by these cautionary statements. We undertake no obligation and do not intend to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable law.

This MD&A was prepared on November **[28]**, 2011. Additional information about the Company is available under the Company's profile on the SEDAR website.

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| *(signed)* Georges A. Durst | *(signed)* Richard Vallée C.A., ICD.D |
| Chief Executive Officer | Chief Financial Officer |