Consolidated
Financial Statements of

SARATOGA ELECTRONIC SOLUTIONS INC.

March 31, 2012 and 2011

SARATOGA ELECTRONIC SOLUTIONS INC.
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MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING

To the Shareholders of Saratoga Electronic Solutions Inc.:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards and ensuring that all information in the Management Discussions and Analysis (MD&A) is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors ("Board") and Audit Committee ("Committee") are composed of some Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Committee has the responsibility of meeting with management and with the external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Company's external auditors.

MNP SENCRL, srl, is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to meet periodically and separately with, both the Committee and management to discuss their audit findings.

(*Signed*) **"GEORGES A. DURST"** Director

(*Signed*) **"DONALD W. SEAL"** Director

Independent Auditors' Report

To the Shareholders of Saratoga Electronic Solutions Inc.:

We have audited the accompanying consolidated financial statements of Saratoga Electronic Solutions Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at March 31, 2012, March 31, 2011 and April 1, 2010, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years ended March 31, 2012 and March 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes assessing the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Saratoga Electronic Solutions Inc. and its subsidiaries as at March 31, 2012, March 31, 2011 and April 1, 2010, and their financial performance and their cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements which describes the uncertainty relating to the events and conditions that may cast significant doubt on the Company's ability to continue as a going concern.

[1]

MNP SENCRL, srl

Montréal, Québec
July 30, 2012

[1] CPA auditor, CA permit No. A113534

SARATOGA ELECTRONIC SOLUTIONS INC.
Consolidated Statements of Financial Position

	Note	March 31, 2012	March 31, 2011	April 1, 2010
			$	$
ASSETS				
Current assets:				
Cash		**887,980**	1,007,260	1,345,515
Trade and other receivables	*7, 28 (a)*	**165,067**	1,806,936	2,227,132
Trade receivables from related parties	*27*	**14,957**	6,869	1,523
Inventories	*5*	-	1,009,823	889,199
Balance of sale receivable	*6*	**51,767**	**-**	**-**
Prepaid expenses		**14,363**	46,858	70,105
		1,134,134	3,877,746	4,533,474
Non-current assets				
Property, plant and equipment	*8*	**1,207,210**	2,536,414	2,815,314
Goodwill	*10*	-	**-**	888,636
Intangible assets	*9*	-	**-**	574,583
Deferred tax assets	*20(c)*	**10,800**	189,367	700,937
Total assets		**2,352,144**	6,603,527	9,512,944

See accompanying notes to the consolidated financial statements.

These financial statements were approved and authorized for issue by the Board of Directors on July 30, 2012:

(*Signed*) **"GEORGES A. DURST"** Director

(*Signed*) **"DONALD W. SEAL"** Director

SARATOGA ELECTRONIC SOLUTIONS INC.
Consolidated Statements of Financial Position

	Note	March 31, 2012	March 31, 2011	April 1, 2010
			$	$
LIABILITIES				
Current liabilities				
Bank indebtedness		**40,955**	606,394	-
Short-term loans	*13, 28 (b)*	**590,000**	1,618,160	1,813,580
Trade and other payables	*11*	**450,657**	4,096,787	4,948,477
Trade payables to related parties	*27*	**3,814**	11,376	15,748
Provisions	*12*	**-**	30,000	30,000
Income taxes payable		**-**	25,384	18,265
Loans payable	*14*	**-**	175,000	400,000
Current long-term loans	*15*	**-**	1,036,209	631,374
		1,085,426	7,599,310	7,857,444
Non-current liabilities				
Long-term loans	*15*	**-**	981,661	1,636,550
Deferred tax liabilities	*20*	**-**	183,622	209,879
Total liabilities		**1,085,426**	8,764,593	9,703,873
Shareholders' equity (deficiency)				
Common shares	*22*	**1,793,803**	1,787,423	1,811,973
Contributed surplus		**182,650**	182,650	182,650
Deficit		**(1,979,735)**	(5,401,139)	(3,568,052)
Equity attributable to shareholders'		**(3,282)**	(3,431,066)	(1,573,429)
Non-controlling interest	*16*	**1,270,000**	1,270,000	1,382,500
Total equity (deficiency)		**1,266,718**	(2,161,066)	(190,929)
Total equity (deficiency) and liabilities		**2,352,144**	6,603,527	9,512,944

See accompanying notes to the consolidated financial statements.

These financial statements were approved and authorized for issue by the Board of Directors on July 30, 2012:

(*Signed*) **"GEORGES A. DURST"** Director

(*Signed*) **"DONALD W. SEAL"** Director

SARATOGA ELECTRONIC SOLUTIONS INC.
Consolidated Statements of Comprehensive Income (Loss)
For the Years Ended

	Note	March 31, 2012	March 31, 2011
		$	$
Revenues		**59,474**	58,011
Selling and administrative		**448,662**	392,162
Depreciation of property, plant and equipment		**41,232**	44,367
Strategic revision process costs		**422,092**	102,467
Insurance claim		**(84,735)**	-
Gain on disposition of business unit	*21(a)*	**(3,069,346)**	-
Gain on disposition of ATM business unit network	*21(b)*	**(873,657)**	-
Money remittance		**(91,263)**	11,063
		(3,207,015)	550,059
Income (loss) before net finance costs and income taxes		**3,266,489**	(492,048)
Finance expense		**61,507**	115,673
Income (loss) before income taxes and income from discontinued operations		**3,204,982**	(607,721)
Income tax expense (recovery):			
Current taxes	*20*	**882**	18,440
Deferred taxes	*20*	**(5,055)**	(5,657)
Income (loss) before discontinued operations		**3,209,155**	(620,504)
Income (loss) from discontinued operations	*21 (c)*	**218,629**	(1,212,583)
Total comprehensive income (loss) for the year		**3,427,784**	(1,833,087)
Earnings (loss) per share from continuing operations (Note 24):			
Basic		**0.17383**	(0.03361)
Diluted		**0.17299**	(0.03361)
Earnings (loss) per share for the year (Note 24):			
Basic		**0.18567**	(0.09929)
Diluted		**0.18477**	(0.09929)
Weighted average number of common shares			
Basic		**18,461,300**	18,461,300
Diluted		**18,551,300**	18,461,300

See accompanying notes to the consolidated financial statements.

SARATOGA ELECTRONIC SOLUTIONS INC.

Consolidated Statements of Changes in Equity

For the Years Ended March 31, 2012 and 2011

	Share capital					
	Number	**Amount**	**Contributed surplus**	**Retained earnings**	**Non-controlling interest**	**Total equity**
	#	**$**	**S**	**$**	$	$
Balance at April 1, 2010	18,648,300	1,811,973	182,650	(3,568,052)	1,382,500	(190,929)
Redemption of common shares	(187,000)	(24,550)	-	-	-	(24,550)
Redemption of preferred shares held by non-controlling interest	-	-	-	-	(112,500)	(112,500)
Total comprehensive loss	-	-	-	(1,833,087)	-	(1,833,087)
Balance at March 31, 2011	18,461,300	1,787,423	182,650	(5,401,139)	1,270,000	(2,161,066)
Redemption of common shares	-	6,380	-	(6,380)	-	-
Total comprehensive income	-	-	-	3,427,784	-	3,427,784
Balance at March 31, 2012	18,461,300	1,793,803	182,650	(1,979,735)	1,270,000	1,266,718

See accompanying notes to consolidated financial statements.

SARATOGA ELECTRONIC SOLUTIONS INC.

Consolidated Statements of Cash Flows

For the Years Ended,

	Note	**March 31, 2012**	March 31, 2011
			$
Cash flows (used in) from operating activities			
Net income (loss) from continuing operations		**3,209,155**	(1,833,087)
Items not involving cash:			
Depreciation of property, plant and equipment	*8*	**41,232**	417,230
Amortization of intangible assets	*9*	-	574,583
Gain on disposal of Group entity		**(3,069,346)**	**-**
Gain on disposal of ATM business network		**(873,657)**	
Write-off of goodwill		-	888,636
Gain on disposal of property, plant and equipment		-	(1,551)
Deferred income taxes		**(5,055)**	485,313
		(697,671)	531,124
Changes in non-cash working capital			
Trade and other receivables		**(101,597)**	414,850
Trade receivables from related parties		**(8,088)**	**-**
Inventories		**-**	(120,624)
Prepaid expenses		**668**	23,247
Trade and other payables		**291,670**	(770,862)
Trade payables from related parties		**(974)**	-
Income taxes payable		**(25,384)**	7,119
Cash flows (used in) from operating activities of continuing operations		**(541,376)**	84,854
Cash flows from operating activities of discontinued operations	*25*	**393,232**	**-**
Cash flows used in investing activities			
Acquisition of property, plant and equipment		-	(30,599)
Proceeds from disposition of business unit		**1,193,788**	**-**
Proceeds from disposition of property, plant and equipment		-	2,500
Cash flows used in investing activities of continuing Operations		**1,193,788**	(28,099)
Cash flows used in investing activities of discontinued operations	*25*	**(36,848)**	**-**

SARATOGA ELECTRONIC SOLUTIONS INC.

Consolidated Statements of Cash Flows

For the Years Ended,

	Note	**March 31, 2012**	March 31, 2011
Cash flows used in financing activities			
Net change in short-term loans		**(20,000)**	(195,420)
Net change in bank indebtedness		**31,485**	606,394
Net change in loans payable		**-**	(225,000)
Redemption of preferred shares held by non-controlling interest		-	(112,500)
Redemption of common shares		-	(24,550)
Dividends paid		-	(85,200)
Repayment of long-term loans		**(70,350)**	(522,649)
Proceeds from new long-term loans		-	163,915
Cash flows used in financing activities of continuing operations		**(58,865)**	(395,010)
Cash flows used in financing activities of discontinued operations	*25*	**(1,069,211)**	**-**
Net decrease in cash		**(119,280)**	(338,255)
Cash - beginning of year		**1,007,260**	1,345,515
Cash - end of year		**887,980**	1,007,260
Supplemental information			
Interest paid in cash		**265,627**	396,225
Income taxes paid in cash		**26,266**	17,347
Items not affecting cash:			
Addition of assets under capital lease		**100**	**108,680**

See accompanying notes to consolidated financial statements

1. Reporting entity

Saratoga Electronic Solutions Inc. (the "Company") is a publicly traded corporation and is incorporated and domiciled in Canada. The consolidated financial statements of the Company as at and for the year ended March 31, 2012 comprise the Company and its subsidiary Corporation Saratoga ATM Inc. and its former subsidiary Distributions Car-Tel Inc. (together referred to as the ''Group'' and individually as ''Group entities''). The Group specializes in two distinct industries, namely the operation of a network of automated teller machines ("ATM's") throughout eastern Canada and wholesale distribution of prepaid cards, point-of-sale activated prepaid phone PINs (P.O.S.A.) and prepaid debit cards. The distribution network is comprised of freestanding intelligent machines, P.O.S.A. terminals and traditional merchants.

The Company entered into a definitive share purchase agreement (the "Purchase Agreement") pursuant 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"). The closing of the transaction was held on December 16, 2011.

As of March 31, 2012, the Company's wholly-owned subsidiary, Saratoga ATM Corporation Inc. ("Saratoga ATM"), through which it conducts its automated teller machine ("ATM") business entered into an agreement with Access Cash General Partnership ("Access Cash") to which Saratoga ATM sold substantially all of its ATM assets to Access Cash. The closing of the transaction was held on April 5, 2012.

The address of the registered office is 2975 Hochelaga, Montreal, QC, H1W 1G1.

2. Going concern

The consolidated financial statements have been prepared on the basis that the Group 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 Group 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.

The Group's ability to continue as a going concern is dependent upon its ability to restore itself to profitability and positive cash flows. The Company has sold its prepaid business segment on December 15, 2011 and its ATM business segment as of March 31, 2012. The Company is looking for new investing opportunities.

3. Basis of presentation

The carrying amounts of assets, liabilities, revenues and expenses presented in the 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.

Statement of compliance

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB").

These consolidated financial statements are the Group's first consolidated financial statements prepared under IFRS. The Group's consolidated financial statements were previously prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). Canadian GAAP differs in some areas from IFRS. In preparing these consolidated financial statements, management has amended certain accounting, valuation and consolidation methods previously applied in the Canadian GAAP consolidated financial statements to comply with IFRS. The comparative figures for 2011 were restated to reflect these adjustments. Certain information and footnote disclosures which are considered material to the understanding of the Group's consolidated financial statements are provided in Note 29 along with reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity and comprehensive income (loss)

Basis of measurement

These consolidated financial statements have been prepared on a going concern basis, under the historical basis.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Group's functional currency.

Critical accounting estimates, judgements and assumptions

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that effect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Although these estimates are based on management's best knowledge of the amount, event or action, the actual results are likely to differ from these estimates, judgments and assumptions.

3. **Basis of presentation** (cont'd.)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

The key sources of information about judgments, estimates and assumptions uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the consolidated financial statements are:

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of (a) its fair value less costs to sell and (b) its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generated unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Income taxes

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Group reviews the adequacy of these provisions at the end of the reporting year. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the year in which such determination is made.

3. Basis of presentation (cont'd.)

Useful lives of property, plant and equipment

The Group estimates the useful lives of property, plant and equipment based on the year over which the assets are expected to be available for use. The estimated useful lives of equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of property, plant and equipment is based on internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any year would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of equipment would increase the recorded expenses and decrease the non-current assets.

Share-based payments transaction

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payments transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility and dividend yield of the share option.

Going concern

The determination of the Group’s ability to raise future funds necessary to carry on operations requires judgement. Further information regarding going concern is outlined in Note 2.

4. Significant accounting policies:

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at April 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

The accounting policies have been applied consistently by Group entities.

4. Significant accounting policies (cont'd.)

A. Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power (directly or indirectly) to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

B. Revenue recognition

Revenues from the ATM group entity are derived from a fee-based transaction model as well as a percentage of the amount of money passing through the ATM network on a daily basis. Revenues are recognized once the day’s transactions are settled, and collection is reasonably assured.

Revenues from the sale of cellular prepaid cards, PINs and debit cards (Car-Tel group entity) are recognized on a gross basis, net of trade discounts and allowances, when the Group determines that it is the primary obligor to its customer, the retail merchant, and incurs inventory risk. Revenues for PINs are recognized when the PIN is transferred by the Group’s platform to the merchants' terminal and subsequently sold to the end user. Revenues from the sale of prepaid Bell long distance cards, gift cards and debit cards are recognized when the product is sold to the end user.

In cases where the Group has determined that it is not the primary obligor, such as where the Group earns commissions on products or services sold and does not incur inventory risk, revenue is recognized at the date of sale as the Group’s continued obligation effectively ended on that date. Accordingly, these sales are recorded on a net revenue basis.

Cash discounts and volume rebates granted to customers in the prepaid product group entity are accrued when earned and are recorded as a reduction of sales.

4. Significant accounting policies (cont'd.)

C. Finance income and finance cost

Finance income comprises interest income on funds invested. Interest income is recognized as it accrues in income or loss, using the effective interest method.

Finance costs comprise interest expense on borrowing from credit facilities, stamping fees, facility fees, accruals of differences between amounts advanced and the principal repayable, distributions on exchangeable partnerships units classified as liabilities and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in income or loss using the effective interest method.

D. Cash and cash equivalents

Cash and cash equivalents are comprised of cash and cash in circulation in ATM machines.

E. Financial instruments

Non-derivative financial instruments are recognized when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through income or loss, any directly attributable transaction costs.

At initial recognition, all financial instruments and are classified in one of the following categories depending on the purpose for which the instruments were acquired:

Financial assets at fair value through profit or loss

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value and changes therein, are recognized in income or loss. The Group had no assets in this category.

Loans and receivables

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment losses, with interest recognized on an effective yield basis. Assets in this category include cash, trade and other receivables, trade receivables from related parties and balance of sale receivable.

4. Significant accounting policies (cont'd.)

Other financial liabilities

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Liabilities in this category include bank indebtedness, short-term loans, trade and other payables, trade payables to related parties, loans payable and long-term loans.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Share capital represents the amount received on the issue of shares, less issuance costs. Proceeds from unit placements are allocated between shares and warrants issued by: estimating the value of the warrants using the Black-Scholes options model; the fair value is allocated to warrants from the net proceeds and the balance is allocated to shares.

F. Inventories

Inventories consist primarily of prepaid telecommunications PIN’s. Inventories are measured at the lower of cost and net realized value. The cost of inventories is based on weighted average and includes expenditures incurred in acquiring the inventories, conversion costs and other costs incurred in bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

G. Property, Plant and Equipment

Initial recognition and measurement

Property, plant and equipment are measured at costs less accumulated depreciation and accumulated impairment losses.

The cost of equipment includes expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

4. Significant accounting policies (cont'd.)

Subsequent measurement

The cost of replacing part of an item of equipment is recognized as part of the carrying amount of such item, if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in the statement of comprehensive income (loss) as an expense as incurred.

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, less its residual value and is provided on a declining balance basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparatives years are as follows:

ATM equipment	20%
POS terminal equipment	10% to 30%
Building	6%
Computer hardware and software	30%
Furniture and fixtures	20%
Automobile	30%

The residual values, useful lives and methods of depreciation are reviewed annually and adjusted if appropriate. Any changes are accounted for prospectively as a change in accounting estimate.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item.

H. Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and measured at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

4. Significant accounting policies (cont'd.)

Other intangible assets

Other intangible assets are primarily comprised of software license agreement.

Intangible assets are carried at historical cost, less accumulated amortization and any impairment losses recognized. Amortization is calculated over the cost of the asset, or other amount substituted for cost, less the residual value. Amortization is recognized in income or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative years are as follows:

Contractual customer relationships	3 years
Software license agreement	5 years

I. Impairment

Financial assets

Financial assets are assessed at each reporting date to determine whether there is objective evidence that they are impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective rate. Losses are recognized in income or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Group's intangible assets and goodwill are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

4. Significant accounting policies (cont'd.)

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the ‘‘cash-generating unit, or CGU’’).

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in income or loss. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

J. Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Company is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Company will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Consolidated Financial Statements

For the Years Ended March 31, 2012 and 2011

4. Significant accounting policies (cont'd.)

K. Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of the provision to be reimbursed, the expense relating to any provision is presented in the consolidated statement of comprehensive income (loss) net of the reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost in the consolidated statement of comprehensive income (loss).

L. Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in income or loss except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income (loss).

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

4. Significant accounting policies (cont'd.)

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the tax benefit will be realized.

M. Earnings per share

The Group presents basic earnings per share ‘‘EPS’’ data for its common shares. Basic EPS are computed by dividing income or loss by the weighted average number of ordinary shares outstanding during the year. Diluted EPS are computed similarly to basic earnings per share, except that the weighted average shares outstanding are increased to include shares from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding share options were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the year.

N. Employee benefits

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

O. Segment reporting

In accordance with IFRS 8, Operating Segments, it is mandatory for the Group to present and disclose segmental information based on the internal reports that are regularly reviewed by the Board of Directors in order to assess each segment’s performance. In this regard, the Group conducts its business in three operating segments being ATM machines, prepaid products and corporate items and eliminations.

P. Share-based payments

The Company operates an equity-settled compensation plan under which it receives services from employees, directors and consultants as consideration for equity instruments of the Company.

4. Significant accounting policies (cont'd.)

The Company uses the Black-Scholes pricing model to estimate the fair value of equity-settled awards at the grant date. The expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are satisfied. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period.

When recognizing the fair value of each tranche over its respective vesting period, the Company incorporates an estimate of the number of options expected to vest and revises that estimate when subsequent information indicates that the number of options expected to vest differs from previous estimates.

No expense is recognized for awards that do not ultimately vest, except for equity-settled awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Q. Fair Value Hierarchy

The Group classifies financial instruments recognised at fair value in accordance with a fair value hierarchy that prioritizes the inputs to valuation technique used to measure fair value as per IFRS 7 – Financial Instruments: Disclosures. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

> Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
>
> Level 2 – Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and
>
> Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

4. Significant accounting policies (cont'd.)

R. Recent accounting pronouncements

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning after January 1, 2010 or later periods. The recent accounting pronouncements that are applicable to the Group are as follows:

(i) IFRS 9 Financial Instruments:

Effective for annual years 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 standards:

- 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 in 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 years 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.

4. Significant accounting policies (cont'd.)

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 Group intends to adopt IFRS 10 in its financial statements for the annual year beginning January 1, 2013. The Group does not expect IFRS 10 to have a material impact on the 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 years beginning on or after January 1, 2013, with early adoption permitted. If an entity applies this standard earlier, it needs not to 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 Group intends to adopt IFRS 12 in its financial statements for the annual year beginning on January 1, 2013. The Group does not expect the amendments to have a material impact on the financial statements, because of the nature of the Group'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 years beginning on or after January 1, 2013. The disclosure requirements of IFRS 13 need not be applied in comparative information for years 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 income or loss or other comprehensive income (loss).

4. Significant accounting policies (cont'd.)

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 Group intends to adopt IFRS 13 prospectively in its financial statements for the annual year beginning on April 1, 2013. The Group does not expect IFRS 13 to have a material impact on the 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 years beginning on or after January 1, 2012. The Group is currently evaluating the impact of this amendment to its financial statements.

5. Inventories

Inventories are comprised of:

	March 31, 2012	March 31, 2011	April 1, 2010
	$	$	$
Prepaid phone PINs	**-**	1,002,206	819,432
Prepaid cards	**-**	1,517	12,867
Prepaid debit cards	**-**	6,100	56,900
Total trade and other receivables	**-**	1,009,823	889,199

Inventories expensed during the year ended March 31, 2012 and included in direct costs amounted to $29,311,082 (2010 - $48,472,830). There were no write-downs in 2012 and 2011.

6. Balance of sale receivable

During the year, the Company entered into an agreement to sell substantially all of its ATM business assets as described further in (Note 21 (b)). The purchase price was held in trust by the lawyers to repay various debts owed by the Company as follows:

6. Balance of sale receivable (cont'd.)

Purchase price	**1,800,000**
Reimbursement of long-term loans	**(445,261)**
Reimbursement of long-term loans	**(66,568)**
Reimbursement of short-term loans	**(891,580)**
Reimbursement of trade and other payables	**(344,824)**
Balance of sale receivable	**51,767**

This transaction has been treated as a non-cash transaction on the statement of cash flows.

7. Trade and other receivables:

Continuing and discontinued activities	**March 31, 2012**	March 31, 2011	April 1, 2010
	$	**$**	$
Trade receivables	**28,656**	1,576,980	1,927,211
Sales taxes receivable	**136,411**	226,788	293,331
Other receivables	**-**	3,168	6,590
Total trade and other receivables	**165,067**	1,806,936	2,227,132

Aging analysis	**March 31, 2012**	March 31, 2011	April 1, 2010
	$	**$**	$
Current	**115,462**	1,755,980	2,085,017
30 – 90 days	**48,444**	43,628	135,051
Over 90 days (past due 0-30 days)	**1,161**	8,328	10,861
	165,067	1,807,936	2,230,929
Allowance for doubtful debt	**-**	1,000	3,797
Total trade and other receivables	**165,067**	1,806,936	2,227,132

No amounts are impaired at March 31, 2012, March 31, 2011 and April 1, 2010

8. Property, plant and equipment

	Land	Building	Automated teller machines	Scanners and other equipment	Furniture and computer equipment	Rolling stock	Assets under capital leases	Total
	$	$	$	$		$	$	$
Cost								
At April 1, 2010	585,300	834,700	1,209,314	1,202,123	216,079	18,219	597,740	4,663,475
Additions	-	-	9,973	14,160	6,466	-	108,680	139,279
Disposal	-	-	(3,400)	-	-	-	-	(3,400)
At March 31, 2011	585,300	834,700	1,215,887	1,216,283	222,545	18,219	706,420	4,799,354
Additions	-	-	24,413	9,000	-	6,835	100	40,348
Disposal	-	-	(2,441)	(14,700)	-	-	-	(17,141)
Sale of Car-Tel	-	-	-	(1,210,583)	(113,999)	(20,054)	-	(1,344,636)
Sale of ATM	-	-	(1,237,859)	-	(80,847)	(5,000)	(706,520)	(2,030,226)
At March 31, 2012	**585,300**	**834,700**	**-**	**-**	**27,699**	**-**	**-**	**1,447,699**
Accumulated Depreciation								
At April 1, 2010	-	141,411	775,925	720,747	140,665	9,639	59,774	1,848,161
Depreciation expense	-	41,598	89,142	144,578	19,066	2,574	120,272	417,230
Disposals	-	-	(2,451)	-	-	-	-	(2,451)
At March 31, 2011	-	183,009	862,616	865,325	159,731	12,213	180,046	2,262,940
Depreciation expense	-	39,102	-	-	2,130	-	-	41,232
Disposals	-	-	(54)	(9,768)	-	-	-	(9,822)
Sale of Car-Tel	-	-	-	(855,557)	(86,707)	(7,713)	-	(949,977)
Sale of ATM	-	-	(862,562)	-	(56,776)	(4,500)	(180,046)	(1,103,884)
At March 31, 2012	**-**	**222,111**	**-**	**-**	**18,378**	**-**	**-**	**240,489**
Net book value								
At April 1, 2010	585,300	693,289	433,389	481,376	75,414	8,580	537,966	2,815,314
At March 31, 2011	585,300	651,691	353,271	350,958	62,814	6,006	526,374	2,536,414
At March 31, 2012	**585,300**	**612,589**	**-**	**-**	**9,321**	**-**	**-**	**1,207,210**

9. Intangible assets

	Contractual Customer relationships	Licences	Total
	$	$	
Cost or deemed cost:	1,680,000	64,583	1,744,583
Accumulated amortization	1,120,000	50,000	1,170,000
Balance at April 1,2010	560,000	14,583	574,583
Amortization	560,000	14,583	574,583
Balance at March 31, 2011 and 2012	-	-	-

10. Goodwill

Balance at April 1,2010	888,636
Impairment loss	(888,636)
Balance at March 31, 2011 and 2012	-

Goodwill is not amortized, but tested annually for impairment with the recoverable amount being determined from value in use calculations. Goodwill has been allocated for impairment testing purposes to the prepaid products business entity of Distribution Car-Tel Inc. Management concluded during the year ended March 31, 2011 that, due to deteriorating sales, expected future losses and negative cash flows, the fair value of the business entity doses not exceed its carrying amount. The valuations used discounted cash flows based on detailed financial budgets prepared by management covering a two year period. Discounted cash flows beyond this two year period are extrapolated at a growth rate of NIL% given continuance decrease in sales. The rate used by the Group to discount these cash flows is 4%, which is the market rate charged to the Group by its bank.

Based on the above assumptions goodwill has been impaired in full giving rise to a charge of $888,636. This loss has been recognised within income (loss) from discontinued operations.

11. Trade and other payables:

Continuing and discontinued activities	**March 31, 2012**	March 31, 2011	April 1, 2010
	$	$	$
Trade payables	**449,427**	3,990,899	4,772,158
Accrued wages payable	**1,230**	83,656	61,910
Accrued interest payable	**-**	22,232	29,209
Dividends payable	**-**	-	85,200
Total trade and other payables	**450,657**	4,096,787	4,948,477

12. Provisions

Provision for lawsuit	$
Balance April 1 and March 31, 2011	30,000
Change in the year	(30,000)
Balance at March 31, 2012	-

The provision recognized on April 1 2010 relates to a lawsuit initiated by former associates of Car-Tel's director. This claim is included in the sale of Car-Tel and the full responsibility of this claim remained with the acquirer of the Car-Tel unit.

13. Short-term loans

The Group has revolving credit facilities subject to review on an annual basis in the aggregate amount of $2,000,000 bearing interest at the bank's prime rate plus 1% per annum, of which $590,000 was used as at March 31, 2012 (2011 - $1,618,160). These facilities are secured by a hypothec on the universality of all property and receivables of a subsidiary company in the amount of $1,000,000 and a personal guarantee of $1,000,000 from the majority shareholder of the Company.

The terms of the credit facilities require a subsidiary company, on a standalone basis, to meet certain financial and non-financial covenants. As at March 31, 2012, March 31, 2011 and April 1, 2010, these requirements have not been met. Details of the requirements are described in Note 28 (b).

14. Loans payable

	March 31, 2012	March 31, 2011	April 1, 2010
	$	$	$
a) Loans payable to a private company bearing interest at 15% - 18% per annum, (paid on a monthly basis), due on April 5, 2011. The loans have been secured by personal guarantees from both the majority shareholder of the Company and the President of a subsidiary of the Company. This loan was fully repaid during the year.	-	75,000	300,000
b) Loan payable to an individual bearing interest at 15% per annum, due on August 2, 2012. The loan has been secured by a personal guarantee from the President of a subsidiary of the Company. This loan was transferred on the sale of business unit (Note 19)	-	100,000	-
c) Loan payable to a director bearing interest at 18% per annum, (paid on a monthly basis), maturing on June 1, 2010. This loan was fully paid during year.	-	-	100,000
	-	175,000	400,000

15. Long-term loans

	March 31, 2012	March 31, 2011	April 1, 2010
	$	$	$
a) Loan bearing interest at prime plus 3%, repayable in monthly capital instalments of $1,902 plus interest; maturing January 31, 2015, secured by the underlying assets having a net carrying amount of $91,403. $22,824 was paid during the year and the balance was transferred on the sale of AMT assets (Note 6)	-	89,392	56,363

15. Long-term loans (cont'd.)

	March 31, 2012	March 31, 2011	April 1, 2010
	$	$	$
b) Loan payable to a company under common control, bearing interest at 18% per annum, repayable in equal monthly blended instalments of $25,000 in capital and interest, and a final blended payment of $5,836 in October 2012. $77,960 was paid during the year and the balance was transferred on the sale of business unit (Note 19)	-	396,212	504,782
c) Loan payable to a company with a common director, non-interest bearing; unsecured with no terms of repayment. This loan was fully repaid during the year.	-	36,488	36,488
d) Bridge loan to a company controlled by a former director, bearing interest at 12% per annum, repayable in monthly blended instalments of capital and interest of $25,929 and one final blended payment of $12,741 in August 2013. [(1)] This loan was fully repaid during the year.	-	392,362	640,037
e) Loan payable to a company under common control, non-interest bearing; unsecured with no terms of repayment. This loan was fully repaid during the year.	-	25,000	-
f) Loan payable to the majority shareholder of the Company, non-interest bearing; unsecured with no terms of repayment. This loan was fully repaid during the year.	-	58,462	-

15. Long-term loans (cont'd.)

	March 31, 2012	March 31, 2011	April 1, 2010
	$	$	$
g) Bridge loan payable to a company with a common director, bearing interest at 12% per annum, repayable in equal monthly blended instalments of $18,071 in capital and interest with a capital repayment holiday from April 2010 to March 2011 and a final blended payment of $8,893 in August, 2014. [1] This loan was fully repaid during the year.	-	446,098	446,098
h) Obligation under capital leases on automated teller machines, bearing interest at 12.5% per annum, repayable in 60 monthly blended instalments of capital and interest of $16,102 and a final blended payment of $28,206 in November 2014. $128,595 was paid during the year and the balance was transferred on the sale of AMT assets (Note 6)	-	573,856	561,580
i) Loan bearing interest at prime plus 1%, repayable in monthly capital instalments of $4,167 plus interest. This loan was fully paid during year.	-	-	20,833
j) Automobile financing loan, bearing interest at 5.20% per annum, repayable in monthly blended instalments of $581 in capital and interest. This loan was fully paid during year.	-	-	1,743
	-	2,017,870	2,267,924
Less: Current portion	-	1,036,209	631,374
	-	981,661	1,636,550

[1] Secured by a movable hypothec on the assets of a subsidiary of the Company in the amount of $1,200,000 with subrogation by Telus Inc. on the same assets for $960,000.

16. Non-controlling interest

The non-controlling interest consists of 1,270,000 Class 'D' preferred shares (2011 – 1,270,000) of a wholly-owned subsidiary of the Company (Saratoga ATM Corporation Inc.), non-voting, non-participating, non-convertible, non-cumulative annual dividend of 8%, and redeemable at $1 per share. Changes in non-controlling interest are summarized as follows:

	2012	2011
	$	$
Balance beginning of year	**1,270,000**	1,382,500
Preferred shares repurchased during the year (1)	-	(112,500)
Share of net income allocated to non-controlling interest	-	-
Payments to non-controlling interest	-	-
Balance, end of year	**1,270,000**	1,270,000

(1) By mutual agreement starting January 1, 2010, one of the Company's subsidiaries commenced a monthly repurchase of 12,500 Class 'D' preferred shares in an amount of $12,500. The shares were redeemed at their face value for cash consideration of $112,500 in 2011. The agreement provides for the Company to redeem or purchase a total of 150,000 Class 'D' preferred shares in an amount of $150,000. As a result of this repurchases, the Company is in breach of one of the requirements under its' lending agreement as described in Note 28.

17. Direct costs

Direct costs per segmented information (Note 26) are comprised of:

	2012	2011
	$	$
Purchases	**29,311,081**	48,472,830
Commissions	**3,291,692**	3,250,540
Transport fees	**329,331**	335,374
Repairs and maintenance	**119,323**	59,826
Lease of equipment	**-**	8,505
	33,051,427	52,127,075

18. Selling and administrative

Selling and administrative expenses per segmented information (Note 26) are comprised of:

	2012	2011
	$	$
Salaries	**508,698**	673,564
Professional fees	**446,060**	356,168
Selling expenses	**162,547**	282,074
Office and general	**100,817**	156,217
Utilities	**67,504**	75,472
Insurance	**67,064**	44,772
Taxes and licences	**31,657**	43,257
Telecommunications	**37,406**	51,148
Bad debt	**6,997**	6,804
	1,428,750	1,689,476

19. Sale of business unit

During the year, the Company entered into a share purchase agreement (the "Purchase Agreement") pursuant to sell all of the shares of its wholly-owned subsidiary Car-Tel Distributions Inc. (Note 21 (a)). The following balances were removed from the statement of financial position as a result of the sale:

Trade and other receivables	**1,493,185**
Inventories	**164,403**
Prepaid expenses	**30,799**
Property, plant and equipment	**394,686**
Trade and other payables	**2,673,649**
Provisions	**30,000**
Bank indebtedness	**836,731**
Loans payable	**100,000**
Long-term loans	**693,846**
Long-term loans	**318,252**
Share capital	**200**
	2,569,605

This transaction has been treated as a non-cash transaction on the statement of cash flows.

19. Sale of business unit (cont'd.)

Approximately $370,000 of deferred tax assets not previously recognized are lost due to the sale of the business unit

20. Income taxes

(a) *The provision for income taxes consists of:*

	2012	2011
	$	$
Current income taxes	**882**	18,440
Deferred income taxes	**(5,055)**	(5,657)
	(4,173)	12,783

(b) *Reconciliation of income taxes*

The impact of differences between the Group's reported income taxes on operating loss and the recovery that would otherwise result from the application of statutory rates is as follows:

	2012		2011	
	$	**%**	$	%
Income tax expense (recovery) at the combined basic Federal and Provincial tax rates on income (loss) before income taxes and income from discontinued operations	**898,357**	**28**	(179,400)	30
Permanent differences [(1)]	**(979,280)**	**(30)**	(306,845)	50
Impairment of Goodwill	**-**	**-**	262,325	(43)
Change in tax rates	**2,541**	**-**	91,104	(15)
Change in tax estimates	**-**	**-**	(18,720)	3
Change in deferred tax assets not recognized (Note 19)	**74,209**	**2**	173,987	(29)
Other, net	**-**	**-**	(9,668)	2
Income tax expense (recovery)	**(4,173)**	**-**	12,783	(2)

(1) Permanent differences are mainly due to:

- ($913,500) at March 31, 2012 (2011 – NIL) due to the difference between the accounting gain, on a consolidated basis, from the sale of Car-Tel and the taxable portion on the Company's tax return;
- ($193,000) at March 31, 2012 (2011 – NIL) due to the difference between the accounting gain from the sale of assets of the Group and the taxable portion on the Group's tax return; and,
- NIL at March 31, 2012 (2011 – ($370,000)) due to reclassifying Car-Tel to discontinued operations and the loss of its deferred tax assets not previously recognized.

20. Income taxes (cont'd.)

(c) The tax effects of significant items comprising the Group’s net deferred income tax assets and liabilities are as follows:

	2012	2011	2010
	$	$	$
Loss carry forwards and other deductible amounts	**719,211**	942,802	1,089,686
Property, plant and equipment	**10,393**	(78,484)	(287,314)
Capital lease obligation	**-**	154,367	155,277
Deferred tax assets not recognized	**(718,804)**	(1,012,940)	(466,591)
	10,800	5,745	491,058

(d) *Tax loss carry forwards:*

The Group has losses available for income tax purposes that can be used to reduce taxable income of future years. These approximate losses expire as follows:

	Federal	**Quebec**
	$	**$**
2027	-	34,000
2028	835,000	848,000
2029	454,000	443,000
2030	576,000	571,000
2031	78,000	74,000
2032	21,000	21,000
	1,964,000	1,991,000

(e) *Other deductible amounts*

The Company has available approximately $400,000 (Quebec $404,000) of cumulative eligible capital which may be deducted indefinitely against taxable income.

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21. Discontinued operations

(a) The Company entered into a definitive share purchase agreement (the "Purchase Agreement") pursuant to sell all of the shares of its wholly-owned subsidiary Car-Tel Distributions Inc. ("Car-Tel") to 7999291 Canada Inc. This disposal was reported in the consolidated financial statements for the year ended March 31, 2012 as a discontinued operation. Revenues and expenses are recognized and reported to December 15, 2011, the date of the sale of Car-Tel. The Company realized a gain on this transaction of $3,069,346.

(b) As of March 31, 2012, the Company's wholly-owned subsidiary, Saratoga ATM Corporation Inc. ("Saratoga ATM"), entered into an agreement with Access Cash General Partnership ("Access Cash") to which Saratoga ATM sold substantially all of its ATM assets to Access Cash. This disposal was reported in the financial statements for the year ended March 31, 2012 as a discontinued operation. Revenues and expenses are recognized and reported to March 31, 2012 the ATM network, the date of sale. The Company realized a gain on this transaction of $873,657.

(c) For the years ending,

	March 31, 2012 Car-Tel	**March 31, 2012 ATM**	**March 31, 2012 Total**	March 31, 2011 Car-Tel	March 31, 2011 ATM	March 31, 2011 Total
	$	$	$	$	$	**$**
Revenues	**30,457,269**	**4,110,680**	**34,567,949**	50,788,899	4,046,954	54,835,853
Direct costs	**29,532,812**	**3,518,615**	**33,051,427**	48,717,664	3,409,411	52,127,075
Selling and administrative	**755,446**	**224,642**	**980,088**	1,100,551	196,763	1,297,314
Deprecation of property, plant and equipment	-	-	-	156,681	216,183	372,864
Amortization of intangible assets	-	-	-	574,583	-	574,583
Impairment of goodwill				888,636	-	888,636
Loss (gain) on disposition of property, plant and equipment	**4,902**	**(1,113)**	**3,789**	-	(1,551)	(1,551)

21. Discontinued operations (cont'd.)

Income before net finance income	**164,109**	**368,536**	**532,645**	(649,216)	226,148	(423,068)
Net finance expenses	**92,111**	**221,905**	**314,016**	127,480	171,065	298,545
Income (loss) of discontinued operations before income taxes	**71,998**	**146,631**	**218,629**	(776,696)	55,083	(721,613)
Income tax expense (recovery)						
Net income taxes	-	-	-	-	-	-
Deferred income taxes	-	-	-	490,970	-	490,970
Total comprehensive income (loss) for the year	**71,998**	**146,631**	**218,629**	(1,267,666)	55,083	(1,212,583)

22. Share capital

Share capital authorized:

An unlimited number of the following classes of shares:

Common, voting participating shares

Series I preferred shares issuable in series, non-voting, 6% non-cumulative dividend, redeemable at the option of the Company, convertible into common shares at the option of the holder at a conversion price equal to the volume weighted average trading price of the common shares during the five days preceding the date of notice of conversion is given.

Series II preferred shares issuable in series, non-voting, 8% non-cumulative dividend, redeemable at the option of the Company, convertible into common shares at the option of the holder at a conversion price equal to the volume weighted average trading price of the common shares during the five days preceding the date of notice of conversion is given.

22. Share capital (cont'd.)

	Number #	Amount $
Common shares		
BALANCE, APRIL 1, 2010	18,648,300	1,811,973
Treasury shares	(187,000)	(24,550)
BALANCE, MARCH 31, 2011	**18,461,300**	**1,787,423**
Cancelled treasury shares	-	6,380
BALANCE, March 31, 2012	**18,461,300**	**1,793,803**

	Number #	Amount $
Treasury shares		
BALANCE, MARCH 31, 2011	-	-
Shares purchased for cancellation	187,000	24,550
Cancelled shares	187,000	(24,550)
BALANCE, March 31, 2012	-	-

There are no preferred shares issued and outstanding as at March 31, 2012 and 2011.

23. Share-based payments

The Company has adopted share-based payments plans under which members of the Board of Directors may award options for ordinary shares to directors, officers, employees and consultants. The maximum number of shares issuable under the plan is 855,000. The exercise price of each option is determined by the Board of Directors and cannot be less than the discounted market value of the ordinary shares at the time of the grant, and the term of the options cannot exceed five years and unexercised options are cancelled after termination of employment or directorship. The option’s exercise price and vesting period is established by the Board of Directors, the options granted vest according to a graded schedule of 33.3% every six months commencing on the grant date.

All share-based payments will be settled in equity. The Company has no legal or constructive obligation to repurchase or settle options.

There were no options granted in 2012 or 2011.

Total stock option compensation costs for the year ended March 31, 2012 relating to options granted in prior years’ amounted to NIL (2011 - NIL).

23. Share-based payments (cont'd.)

The Company's share options are as follows for the reporting years presented:

	March 31, 2012		March 31, 2011	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
	#	$	#	$
Balance - beginning of year	**280,000**	**0.26**	280,000	0.26
Granted	-	-	-	-
Expired	**190,000**	**0.26**	-	-
Balance - end of year	**90,000**	**0.27**	280,000	0.26

All options outstanding were exercisable at March 31, 2012, March 31, 2011 and April 1, 2010.

The table below summarizes the information related to share options as at March 31, 2012:

Outstanding options			Exercisable options	
# of Options	Weighted Average Exercise Price $	Expiry Date	# of options	Weighted Average Exercise Price $
90,000	**0.27**	**12-2012**	**90,000**	**0.27**

The fair value of the granted options was determined using the Black-Scholes option pricing model.

24. Earnings (loss) per share

The calculation of basic loss per share is based on the loss for the year divided by the weighted average number of shares in circulation during the year. In calculating the diluted loss per share, potential ordinary shares such as share options have not been included as they would have the effect of decreasing the loss per share. Decreasing the loss per share would be antidilutive. Details of share options issued that could potentially dilute earnings per share in the future are given in Note 23.

24. Earnings (loss) per share (Cont'd)

Both the basic and diluted per share have been calculated using the income (loss) as the numerator, i.e. no adjustment to the income (loss) were necessary for the years ended March 31, 2012 and March 31, 2011 respectively.

	Year ended	
	March 31, 2012	March 31, 2011
	$	**$**
Net income (loss) for continued operations	**3,209,155**	(620,504)
Earnings per share:		
Basic earnings (loss) per share	**0.17383**	(0.03361)
Diluted earnings (loss) per share	**0.17299**	(0.03361)
Net income (loss) for discontinued operations	**218,629**	(1,212,583)
Earnings per share:		
Basic earnings (loss) per share	**0.01184**	(0.06569)
Diluted earnings (loss) per share	**0.01179**	(0.06569)
Net income (loss) for the year	**3,427,784**	(1,833,087)
Earnings per share:		
Basic earnings (loss) per share	**0.18567**	(0.09929)
Diluted earnings (loss) per share	**0.18477**	(0.09929)
Weighted average number of shares in circulation:	**#**	#
Basic	**18,461,300**	18,461,300
Diluted	**18,551,300**	18,461,300

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25. Supplemental cash flow information

	March 31, 2012	March 31, 2012
	$	**$**
Net income from discontinued operations	218,629	-
Items not involving cash:		
Loss on disposal of property, plant and equipment	3,789	-
Changes in non-cash working capital		
Trade and other receivables	250,280	-
Inventories	845,420	-
Prepaid expenses	1,029	-
Trade and other payables	(919,327)	-
Trade payables from related parties	(6,588)	-
Cash flows (used in) from operating activities of discontinued operations	393,232	-
Cash flows (used in) in investing activities		
Acquisition of property, plant and equipment	(40,348)	-
Loss on disposal of property, plant and equipment	3,500	-
Cash flows (used in) in investing activities of discontinued operations	(36,848)	-
Cash flows used in financing activities		
Bank indebtedness	239,807	-
Loans payable	(75,000)	-
Short-term loans	(116,580)	-
Long-term loans	(1,117,438)	-
Cash flows (used in) from operating activities of discontinued operations	(1,069,211)	-

26. Segmented information

The accounting policies used to prepare the information by business segment are the same as those used to prepare the consolidated financial statements of the Group as described in Note 3.

The Group's significant business segments include:

- *ATM network segment:* ATM transactions which include a fee or percentage base costs per transaction and a fixed base surcharge per transaction for money passing though the ATM network.

26. Segmented information (cont'd.)

- *Prepaid distribution segment:* Engaged in prepaid phone cards, phone PINs, long distance cards and gift cards. Revenues recorded on a net revenue basis where the Group has determined that is not the primary obligor, and included in revenues below, account for $289,234 for the year ended March 31, 2012 (2011 - $484,007).

All of the Group's reportable segments are conducted solely in Canada. Information by reportable segment for the year ended March 31, 2012 and 2011 is as follows:

	Discontinued Operations		Continuing Operation	March 31, 2012
	ATM Machines	Prepaid Products	Corporate Items and Eliminations	Consolidated Totals
	$	$	$	$
Revenues	4,110,680	30,457,269	59,474	34,627,423
Direct costs	3,518,615	29,532,812	-	33,051,427
Selling and administrative	224,642	755,446	448,662	1,428,750
Depreciation of property, plant and equipment	-	-	41,232	41,232
Amortization of intangible assets	-	-	-	-
Money remittance costs	-	-	(91,263)	(91,263)
Strategic review process costs	-	-	422,092	422,092
Insurance claim	-	-	(84,735)	(84,735)
Gain on disposition of business unit	-	-	(3,069,346)	(3,069,396)
Gain on disposition of ATM business network	-	-	(873,657)	(873,657)
Loss (gain) on disposition of property, plant and equipment	(1,113)	4,902	-	3,789
	3,742,144	30,293,160	(3,207,015)	30,828,289
Income (loss) before finance costs	368,536	164,109	3,266,489	3,799,134
Net finance expenses	221,905	92,111	61,507	375,523
Income (loss) of continuing activities	-	-	3,204,982	3,204,982
Net Income from assets of discontinued activities (1)	146,631	71,998	-	218,629
Net Income before income taxes	146,631	71,998	3,204,982	3,423,611
Additions to property, plant and equipment	24,512	15,836	-	40,348
Goodwill	-	-	-	-
Total assets of continued operations	-	-	2,352,144	2,352,144

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26. Segmented information (cont'd.)

1. No depreciation expenses were accounted for in net income from assets held for sale.

Continuing Operations				March 31,2011
	ATM Machines	Prepaid Products	Corporate Items and Eliminations	Consolidated Totals
	$	$	$	$
Revenues	4,046,954	50,788,899	58,011	54,893,864
Direct costs	3,409,411	48,717,664	-	52,127,075
Selling and administrative	196,763	1,100,551	392,162	1,689,476
Depreciation of property, plant and equipment	216,183	156,681	44,367	417,231
Amortization of intangible assets	-	574,583	-	574,583
Strategic review process costs	-	-	102,467	102,467
Money remittance costs	-	-	11,063	11,063
Impairment of goodwill	-	888,636	-	888,636
Gain on disposition of assets	(1,551)	-	-	(1,551)
	3,820,806	51,438,115	550,059	55,808,980
Income (loss) before finance costs	226,148	(649,216)	(492,048)	(915,116)
Net finance expenses	171,065	127,480	115,673	414,218
Income (loss) before income taxes continuing	-	-	(607,721)	(607,721)
Income (loss) before income taxes discontinued	55,083	(776,696)	-	(721,613)
Net income before income taxes	55,083	(776,696)	(607,721)	(1,329,344)
Additions to property, plant and equipment	131,425	7,854	-	139,279
Total assets	2,180,436	3,168,870	1,254,221	6,603,527
Total assets April 1, 2010	2,343,861	4,929,849	2,239,234	9,512,944

27. Related party transactions

Balances and transactions between Saratoga Electronic Solutions Inc. and its subsidiaries, which are related parties of Saratoga Electronic Solutions Inc., have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

	Country of incorporation	Percentage of interest	
		March 31, 2012	March 31, 2011
Saratoga ATM Corporation Inc.	Canada	100 %	100 %
Distribution Car-Tel Inc.	Canada	NIL	100 %

The Group's related parties include private companies controlled by directors as described below.

	March 31, 2012	March 31, 2011
	$	$
Trade receivables from related parties:		
Companies with common director	**14,957**	6,869
Total trade receivables from related parties	**14,957**	6,869
Trade payables from related parties:		
Company under common control	-	5,943
Companies with common director	-	4,788
Directors	**3,814**	645
Total trade payables from related parties	**3,814**	11,376
Revenues:		
Rental income companies under common control	**21,925**	19,451
Total revenues	**21,925**	19,451
Selling and administrative – related parties:		
Professional fees	**49,989**	72,694
Total Selling and administrative – related parties	**49,989**	72,694
Net finance expenses – related parties:		
Company under common control	**47,127**	85,232
Companies with common director	**33,991**	53,532
Director	**-**	3,000
Total finance expenses – related parties	**81,118**	141,764

27. Related party transactions (cont'd.)

The Group has identified its directors and certain officers as its key management personnel. The compensation costs for key management personal for the years ended March 31, 2012 and 2011 are as follows:

	2012	2011
		$
Salaries and benefits key management personal	**153,731**	173,699
Directors	**21,200**	18,700

28. Financial instruments risks

The Group is exposed to various risks in relation to financial instruments. The main types of risks are credit risk, liquidity risk and interest rate risk. The Group's risk management is coordinated in close cooperation with the Board of Directors, and focuses on actively securing the Group's short-to medium-term cash flows by minimizing the exposure to financial markets. The Group does not actively engage in the trading of financial speculative purposes. The most significant financial risks to which the Group is exposed are described below. The Group is exposed to market risk through its use of financial instruments and specifically to interest risk and certain other risks, which result from both its operating and investing activities. No changes were made in the objectives, policies and processes during the reporting years.

The carrying value of cash, trade and other receivables, trade receivables from related parties, bank indebtedness, short-term loans, trade and other payables, trade payables from related parties, provisions and loans payable, are considered to be reasonable approximation of fair value because of the short-term maturity of these instruments.

The carrying value of long-term loans is considered to be reasonable approximation of fair value due to market interest rates being changed on them.

Financial instruments measured at fair value

The following presents financial assets and liabilities measured at fair value in the consolidated statements of financial position in accordance with the fair value hierarchy. This hierarchy groups assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

28. Financial instruments risk (cont'd.)

- Level 1: quoted prices (unadjusted) in active markets for individual assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The level within which the financial assets or liabilities is determined based on the lowest level of significant input to the fair value measurement.

(a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the Group's trade and other receivables. The Group may also have credit risk relating to cash and cash equivalents. The carrying amount of financial assets, as disclosed above, represents the Group's maximum exposure.

The Group's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. The Group reviews the individual characteristics of each customer's credit history before extending credit and monitors extensions of credit by regular reviews of customers' credit performance. Revenues are with payment terms due within 30 days on the day invoiced. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific customers, historical trends and other information. The Group has not experienced significant credit losses in the past.

The Group is exposed to concentration of credit risk as at March 31, 2012 as approximately 88% (2011 – 93%) of the Group's revenue is derived from its prepaid products business unit. Its ability to continue as a viable operation is dependent upon 2 major customers, which account for approximately 28% (2011 – 29%) of the segment's revenues and NIL% (2011 – 31%) of the segment's trade and other receivables. The maximum credit risk exposure for trade and other receivable corresponds to the carrying value.

28. Financial instruments risk (cont'd.)

	Revenues		Accounts Receivable	
	2012	2011	**2012**	2011
	%	%	**%**	%
Concentration of main customers of the prepaid segment:				
Sobey's Inc.	**14**	13	**-**	19
Ultramar Corporation	**14**	16	**-**	12
	28	29	**-**	31

The prepaid product business unit acquires its inventories from two major suppliers, which account for approximately 64% of the segments direct costs.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they become due. The Group manages liquidity risk through the management of its capital structure and financial leverage. It also manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors reviews and approves the Group's operating and capital budgets, as well as any material transactions out of the ordinary course of business, including proposals on acquisitions or other major investments or divestitures.

The following table presents the contractual maturities of the Corporation's financial liabilities:

As at March 31, 2012			Payments by Periods		
	Total	< 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
Bank indebtedness	$ 40,955	$ 40,955	$ -	$ -	$ -
Short-term loans	590,000	590,000	-	-	-
Trade and other payables	450,657	450,657	-	-	-
Trade payables to related parties	3,814	3,814	-	-	-

28. Financial instruments risk (cont'd.)

As at March 31, 2011			Payments by Periods		
	Total	< 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
Bank indebtedness	$ 606,394	$ 606,394	$ -	$ -	$ -
Short-term loans	1,618,160	1,618,160	-	-	-
Trade and other payables	4,096,787	4,096,787	-	-	-
Trade payables to related parties	11,376	11,376	-	-	-
Provisions	30,000	30,000	-	-	-
Loans payable	175,000	175,000	-	-	-
Long-term loans	2,017,870	1,036,209	1,128,380	-	-

As at April 1, 2010			Payments by Periods		
	Total	< 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
Short-term loans	$ 1,813,580	$ 1,813,580	-	-	-
Trade and other payables	4,948,477	4,948,477	-	-	-
Trade payables to related parties	15,748	15,748	-	-	-
Provisions	30,000	30,000	-	-	-
Loans payable	400,000	400,000	-	-	-
Long-term loans	2,267,924	521,594	1,635,751	110,579	-

The Group's primary objectives when managing capital is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. The Group capital items are cash and cash equivalents, bank loans, current portion of long-term loans, and common shares.

The Group sets the amount of capital in proportion to risk. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or debt, or sell assets to reduce debt or fund acquisition or development activities.

28. Financial instruments risk (cont'd.)

The Group's strategy for capital risk management is subject to externally imposed capital requirements from one of its lenders. 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 to1
- not to redeem any preferred shares without obtaining the consent of the lender

As at March 31, 2012, the Group has not met all of the requirements. The annual account review is in progress and should be completed in the second quarter of fiscal year 2013.

Moreover, there is no guarantee that the new debt structure will be sufficient to support the future working capital needs of the Group, or that the Group would be able, if required, to gain access to additional working capital.

The Company has also created a new class of preferred shares as described in Note 16. The primary purpose of creating these preferred shares is to provide management with greater flexibility respecting potential future financings and other corporate transactions.

(c) Foreign currency risk

All of the Group's cash flows and financial assets and liabilities are denominated in Canadian dollars, which is the Group's functional and reporting currency. Therefore, the Group is not exposed to foreign currency risk.

(d) Interest rate risk

The Group is exposed to interest rate risk as interest fluctuations could have an impact on the interest income generated by the Group on its cash, which, when interest bearing, bears interest at fixed rates. The Group has established guidelines whereby the objectives are to preserve capital, to keep the investment portfolio liquid and to achieve reasonable returns.

28. Financial instruments risk (cont'd.)

The Group is exposed to interest rate risk on its short-term loans and long-term loans, bearing variable rates of interest. The Group's interest risk exposure is a function of changes in the prime rate. However, a variation of 1% in the prime rate will not have a significant effect on the net loss or financial position of the Group. As at March 31, 2012, should interest rates vary by 100 basis points and all the other parameters remain the same, the Group's net income for the year then ended would have increased or decreased by approximately $5,900.

(e) Economic conditions

The Group, at March 31, 2012 still owns the building in which its office is located; all office space not occupied by the Group is rented to various tenants. The main tenant, Car-Tel, moved out in January 2012 and the armored car services tenant will move out by the second quarter of 2013, thus reducing the Group's rental income in future years.

The Group's rental income is subject to economic conditions in the Montreal area. Consequently, a downturn in economic conditions could reduce office rental demand for the Group's office rental space that it does not occupy and could have a material adverse effect on the Group's office rental revenues, financial position and operating results.

29. First-time adoption of IFRS

These are the Group's first consolidated financial statements prepared in accordance with IFRS. The date of transition to IFRS is April 1, 2010. The Group's IFRS accounting policies presented in Note 4 have been applied in preparing the consolidated financial statements for the reporting year ended March 31, 2012, the comparative information and the opening consolidated statement of financial position at the date of transition.

The Group has applied IFRS 1 in preparing these first IFRS consolidated financial statements. The effects of the transition to IFRS on equity, total comprehensive income (loss) and reported cash flows already established are presented in this section and are further explained in the notes that accompany the tables. Upon transition, IFRS 1 dictates certain mandatory exceptions and certain optional exemptions from full retrospective application. The exceptions and exemptions adopted by the Group are set out below:

29. First-time adoption of IFRS (cont'd.)

Mandatory exceptions

The estimates established by the Group in accordance with IFRS at the date of transition to IFRS are consistent with estimates made for the same date in accordance with Canadian GAAP, after adjustments to reflect any differences in accounting principles, if applicable.

Optional exemptions

The Company has chosen not to apply IFRS 2, Share-based Payment, retrospectively to options granted on or before November 7, 2002 or granted after November 7, 2002 and vested before the date of transition to IFRS.

The Company has chosen not to apply IFRS 3, Business Combinations, retrospectively to past business combinations.

Reconciliation of equity

Certain presentation differences between Canadian GAAP and IFRS have no impact on reported loss or total equity. As can be seen in the following tables, some line items are described differently (renamed) under IFRS compared to Canadian GAAP, although the assets and liabilities included in these items are unaffected.

The following table shows the effect of the transition on the consolidated statements of financial position as at:

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29. First-time adoption of IFRS (cont'd.)

Reconciliation of Equity at April 1, 2010

Canadian GAAP Description	Note	Canadian GAAP Balance	Effect of transition	IFRS Balance
		$	$	$
ASSETS				
Current assets:				
Cash in circulation		283,075	-	283,075
Cash – in circulation in automated teller machines		1,062,440	-	1,062,440
Trade and other receivables	*b*	2,228,655	(1,523)	2,227,132
Trade receivables from related parties	*b*	-	1,523	1,523
Inventories		889,199	-	889,199
Prepaid expenses		70,105	-	70,105
		4,533,474	-	4,533,474
Property, plant and equipment		2,815,314	-	2,815,314
Goodwill		888,636	-	888,636
Intangible assets		574,583	-	574,583
Deferred tax assets		700,937	-	700,937
Total assets		9,512,944	-	9,512,944
LIABILITIES				
Current liabilities				
Short-term loans		1,813,580	-	1,813,580
Trade and other payables	*a, b, c*	4,909,025	39,452	4,938,477
Trade payables to related parties	*b*	-	15,748	15,748
Provisions	*a*	-	30,000	30,000
Income taxes payable		18,265	-	18,265
Loans payable		400,000	-	400,000
Current long-term loans		631,374	-	631,374
		7,772,244	85,200	7,857,444
Long-term loans		1,636,550	-	1,636,550
Deferred tax liabilities		209,879	-	209,879
Total liabilities		9,618,673	85,200	9,703,873
Non-controlling interest	*c*	1,467,700	(1,467,700)	-
Shareholders' equity				
Common shares		1,811,973	-	1,811,973
Contributed surplus		182,650	-	182,650
Deficit		(3,568,052)	-	(3,568,052)
Equity attributable to shareholders'		(1,573,429)	-	(1,573,429)
Non-controlling interest	*c*	-	1,382,500	1,382,500
Total equity		(1,573,429)	1,382,500	(190,929)
Total equity and liabilities		9,512,944	-	9,512,944

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Consolidated Financial Statements

For the Years Ended March 31, 2012 and 2011

29. First-time adoption of IFRS (cont'd.)

Reconciliation of Equity at March 31, 2011

Canadian GAAP Description	Note	Canadian GAAP Balance	Effect of transition	IFRS Balance
		$	$	$
ASSETS				
Current assets:				
Cash – in circulation in automated teller machines		1,007,260	-	1,007,260
Trade and other receivables	*b*	1,813,805	(6,869)	1,806,936
Trade receivables from related parties	*b*	-	6,869	6,869
Inventories		1,009,823	-	1,009,823
Prepaid expenses		46,858	-	46,858
		3,877,746	-	3,877,746
Property, plant and equipment		2,536,414	-	2,536,414
Deferred tax assets		189,367	-	189,367
Total assets		6,603,527	-	6,603,527
LIABILITIES				
Current liabilities				
Bank indebtedness		606,394	-	606,394
Short-term loans		1,618,160	-	1,618,160
Trade and other payables	*a, b, c*	4,138,163	(41,376)	4,096,787
Trade payables to related parties	*b*	-	11,376	11,376
Provisions	*a*	-	30,000	30,000
Income taxes payable		25,384	-	25,384
Loans payable		175,000	-	175,000
Current long-term loans		1,036,209	-	1,036,209
		7,599,310	-	7,599,310
Long-term loans		981,661	-	981,661
Deferred tax liabilities		183,622	-	183,622
Total liabilities		8,764,593	-	8,764,593
Non-controlling interest	*c*	1,270,000	(1,270,000)	-
Shareholders' equity				
Common shares		1,787,423	-	1,787,423
Contributed surplus		182,650	-	182,650
Deficit		(5,401,139)	-	(5,401,139)
Equity attributable to shareholders'		(3,431,066)	-	(3,431,066)
Non-controlling interest	*c*	-	1,270,000	1,270,000
Total equity		(3,431,066)	1,270,000	(2,161,066)
Total equity and liabilities		6,603,527	-	6,603,527

29. First-time adoption of IFRS (cont'd.)

a. Provisions

A reclassification adjustment was required to the present provision as a separate line item on the consolidated statement of financial position.

b. Trade Receivables and trade payables - related parties

A reclassification adjustment was required to the present provision as a separate line item on the consolidated statement of financial position.

c. Non-controlling interest

A reclassification adjustment was required to the present the non-controlling interest as an equity instrument. The dividend payable on non-controlling interest is discretionary and its reclassification to trade and other payables on the consolidated statement of financial position.