Saratoga
Electronic Solutions Inc.
TSX Venture «SAR»

SARATOGA ELECTRONIC SOLUTIONS INC.

Management’s Discussion and Analysis

For the nine months ended December 31, 2010

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations of Saratoga Electronic Solutions Inc. ("Saratoga" or the "Company") was prepared in accordance with Regulation 51-102 "Respecting Continuous Disclosure Obligations" and should be read in conjunction with the unaudited consolidated financial statements and related notes thereto of the Company for the nine-month periods ended December 31, 2010 and 2009. The Company files its consolidated financial statements, press releases and other required disclosure documents on the SEDAR database at www.sedar.com.

The Company prepares its unaudited consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). Unless otherwise indicated, all dollar amounts referred to in this Management's Discussion and Analysis ("MD&A") are in Canadian dollars.

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

The consolidated unaudited financial statements and MD&A of the Company in respect of the nine-month periods ended December 31, 2010 and 2009 were reviewed by the Audit Committee and approved by the Board of Directors of the Company on February 28, 2011.

OVERVIEW

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

Business Overview

As at December 31, 2010, the Company had two significant businesses which are described in more detail below: Automated Teller Machines ("ATMs") and prepaid products.

All of the Company's businesses operate solely in Canada. 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 Company.

STRATEGIC ALTERNATIVES

On October 8, 2010, the Company announced that the Board of Directors had initiated a process to explore and consider possible strategic alternatives for enhancing shareholder value, including a possible sale of the Company. A Special Committee of the Board of Directors has been formed in order to oversee this process and KPMG Corporate Finance Inc. has been retained as the Company's financial advisor to assists and advise in this process.

The Company has not set a definitive timetable for completion of its evaluation and there can be no assurance that this process will lead to the approval or completion of any definitive agreement or other transaction. The Company does not intend to disclose developments regarding this process unless and until the Board of Directors approves a specific transaction or otherwise concludes the review of strategic alternatives.

ATMs

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

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

The size of the Company's network of ATMs currently stands at approximately 430 ATMs, including those ATMs which the Company is under contract to provide to Ultramar. Moreover, the Company anticipates adding an additional 10 ATMs to the Ultramar network in each of the next two financial quarters, with the acquisition cost of such ATMs being financed through the Company's existing capital leasing arrangements.

The Company employs an integrated sales force to promote both its ATM business and its prepaid products business described below, in order to improve opportunities for cross-selling and leveraging existing relationships and service delivery models. The Company's strategy for its ATM division is to increase revenues through deploying ATMs in major retail outlets and further improving the cross-selling opportunities generated from its prepaid products business.

Prepaid products

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

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

Car-Tel maintains approximately 2,730 POS locations. The Company believes that POS location offerings in its traditional market have reached market maturity status. Therefore, during the nine-month period ended December 31, 2010, Car-Tel reduced its selling expenses in the form of selling salaries and benefits, as well as reducing its travel costs and the costs associated with publicity and promotions, thereby achieving a cost savings of approximately $137,000. Moreover, Car-Tel is in the process of consolidating the number of POS machines in its network. As part of this process, merchants not meeting a minimum sales volume are being required to pay a weekly fee in order to cover Car-Tel's fixed costs. As well, approximately 200 non-performing merchants have retired their POS machines over the last nine-month period. Although Car-Tel's revenues from product sales as principal have decreased, gross margins have increased slightly in the last quarter. Car-Tel intends to continue in the next quarter to consolidate the number of POS machines in its network not meeting a minimum sales volume.

Money remittance

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

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

On July 6, 2009, the Company announced its decision to abandon its money remittance business after determining there to be limited prospects of generating sufficient operating revenue in order to offset the costs associated with completing the launch of this platform. On March 17, 2010, the Company ceased its money remittance operations. Subsequently, in May 2010, at the request of Union Bank of the Philippines, the

Company agreed to resume its money remittance operations until such time as the parties would be able to transfer the operations to a third party. Union Bank of the Philippines has since agreed to pay to the Company the sum of $125,000 in exchange for its money remittance platform. The closing of this transaction is expected to occur in March 2011.

Normal course issuer bid

The TSX Venture Exchange ("TSX-V") has accepted the Company's Notice of Intention to make a Normal Course Issuer Bid ("NCIB"). Pursuant to the NCIB, the Company may, from time to time and if considered advisable, purchase through the facilities of the TSX-V up to an aggregate of 932,415 of its common shares, being approximately 5% of the Company's issued and outstanding common shares as of May 12, 2010. All of the common shares purchased by the Company pursuant to the NCIB will be cancelled.

Given the initiation by the Company of a process to explore and consider possible strategic alternatives for enhancing shareholder value, purchases of shares pursuant to the NCIB have been suspended.

Quarterly results

Quarter	**Revenue**	**Net earnings (loss)**	**Net earnings(loss) per share - basic and diluted**
	$	**$**	**$**
Year ending March 31, 2011			
Third Quarter	13,345,085	(378,337)	(0.02049)
Second Quarter	15,082,148	(4,718)	(0.00026)
First Quarter	15,061,246	78,182	0.00421
Year ended March 31, 2010			
Fourth Quarter	13,266,982	(604,498)	(0.03242)
Third Quarter	13,596,561	(226,021)	(0.01212)
Second Quarter	14,323,183	(144,480)	(0.00775)
First Quarter	13,728,423	(236,851)	(0.01270)

Quarter	**Revenue**	**Net earnings (loss)**	**Net earnings(loss) per share - basic and diluted**
	$	**$**	**$**
Year ended March 31, 2009			
Fourth Quarter	11,948,410	(1,049,816)	(0.05630)

The following table summarizes certain financial data related to the Company and should be read in conjunction with the Company's unaudited consolidated financial statements for the periods ended December 31, 2010 and 2009.

	For the three-month period ended		**For the nine-month period ended**	
	December 31, 2010 (unaudited)	**December 31, 2009 (unaudited**	**December 31, 2010 (unaudited)**	**December 31, 2009 (unaudited**
	$ **(except for share information)**	**$** (except for share information)	**$** **(except for share information)**	**$** (except for share information)
Revenues	**13,345,085**	13,596,561	**43,488,479**	41,648,167
Direct costs	**12,756,857**	12,969,806	**41,250,479**	39,551,458
Gross margin	**588,228**	626,755	**2,238,000**	2,096,709
Operating expenses	**399,771**	498,984	**1,266,824**	1,608,365
Undernoted items	**435,343**	353,792	**1,141,598**	1,105,977
Income taxes	**131,451**	-	**131,451**	(10,281)
Net income (loss)	**(378,337)**	(226,021)	**(304,873)**	(607,352)
Loss per share	**(0.2049)**	(0.01212)	**(0.01651)**	(0.03257)
Weighted average number of outstanding shares	**18,461,300**	18,648,300	**18,461,300**	18,648,300

Revenues

Revenues from the prepaid products business are generated primarily from sales in two categories: sales as principal and sales as agent. Revenues from the sale of cellular prepaid cards, PINs and debit cards are recognized on a gross basis when the Company determines that it is the primary obligor to its customer, the retail merchant, and thus incurs an inventory risk. Revenues are recognized at the date of sale or, in the case of

PINs, on the date on which the PIN is transferred via the Company’s platform to the merchants' terminal and subsequently sold to the end user. Revenues from the sale of Bell long distance cards and gift cards are recognized on a net basis when the Company determines that it is not the primary obligor, such as where the Company earns commission on products or services sold and does not incur inventory risk. In this case, revenue is recognized at the date of sale and since the Company’s continued obligation effectively ends on that date.

Revenues for the three-month period ended December 31, 2010 decreased to $13,345,085 from $13,596,561 for the three-month period ended December 31, 2009, representing a year-over-year decrease of $251,476 (1.85%). The decrease in revenues was a direct result of the decrease of $844,805 (6.42%) in prepaid products segment revenues and of $924 (6.42%) in corporate items, offset by an increase of $594,253 (142.86%) in ATM segment revenues.

Total revenues from the ATM business (Saratoga ATM) were $1,010,210 for the three-month period ended December 31, 2010, compared to $415,957 for the three-month period ended December 31, 2009. The year-over-year increase in the ATM segment is $594,253 (142.86%), mostly attributable to increased revenues of $619,944 generated from the Company’s agreement with Ultramar and offset by a decrease in revenues of $25,691 (8.31%) generated from other ATM locations. There were no price changes in this three-month period.

Total revenues from the prepaid products business were $12,320,598 for the three-month period ended December 31, 2010, compared to $13,165,403 for the three-month period ended December 31, 2009. The year-over-year decrease in the prepaid products segment is $844,805 (6.42%). Revenues from product sales as principal for the three-month period ended December 31, 2010 were $12,196,732, compared to $13,075,932 for the three-month period ended December 31, 2009, representing a decrease of $879,200 (6.72%). The decrease in revenues from product sales as principal is mainly explained by a decrease in sales volume as a result of a lesser number of POS machines being comprised in the Car-Tel network, as opposed to by any significant pricing changes. Car-Tel’s network decreased from approximately 2,960 POS machines as of September 30, 2010 to approximately 2,860 POS machines as of December 31, 2010. This decrease of approximately 100 POS machines is the result of the elimination of approximately 75 POS machines that were placed with a major client which generated high volumes of low gross margin transactions. A further approximately 25 POS machines were eliminated as a result of various independent corner stores deciding to abandon the sale of prepaid cards.

Revenues from product sales as agent for the three-month period ended September 30, 2010 were $123,866, compared to $89,471 for the three-month period ended December 31, 2009, representing an increase of $34,395 (38.44%). This increase of $34,395 in revenues from product sales as agent can be attributed to: (i) an increase of $29,636 (35.24%) in Bell long distance cards; (ii) an increase of $1,353 (49.33%) in other gift card offerings; and (iii) an increase $3,407 (100.00%) in MasterCard gift card.

Revenues for the nine-month period ended December 31, 2010 rose to $43,488,479 from $41,648,167 for the nine-month period ended December 31, 2009, representing a year-over-year increase of $1,840,312 (4.42%). The increase in revenues was a direct result of an increase of $2,088,222 (200.07%) in ATM segment revenues, offset by a decrease of $245,142 (0.60%) in prepaid products segment revenues and of $2,768 (6.07%) in corporate items.

Total revenues from the ATM business (Saratoga ATM) were $3,131,951 for the nine-month period ended December 31, 2010, compared to $1,043,729 for the nine-month period ended December 31, 2009. The year-over-year increase in the ATM segment is $2,088,222 (200.07%), mostly attributable to increased revenues of $2,130,486 (1,996.39%) generated from the new ATM locations under the Company's agreement with Ultramar, offset by a decrease in revenues of $42,264 (4.51%) generated from other ATM locations.

Total revenues from the prepaid products business were $40,313,696 for the nine-month period ended December 31, 2010, compared to $40,558,838 for the nine-month period ended December 31, 2009. The year-over-year decrease in the prepaid products segment is $245,142 (0.60%). Revenues from product sales as principal for the nine-month period ended December 31, 2010 were $39,940,038, compared to $40,264,924 for the nine-month period ended December 31, 2009, representing a decrease of $324,886 (0.81%). The decrease in revenues from product sales as principal is mainly explained by a decrease in sales volume as a result of a lesser number of POS machines being comprised in the Car-Tel network, as opposed to by any significant pricing changes. Car-Tel's network decreased from approximately 3,015 POS machines as of December 31, 2009 to approximately 2,860 POS machines as of December 31, 2010. This decrease of approximately 155 POS machines is the result of the elimination of approximately 75 POS machines that were placed with a major client which generated high volumes of low margin transactions. A further approximately 80 POS machines were eliminated as a result of various independent corner stores deciding to abandon the sale of prepaid cards.

Revenues from product sales as agent for the nine-month period ended December 31, 2010 were $373,658, compared to $293,914 for the nine-month period ended December 31, 2009, representing an increase of $79,744 (27.13%). This increase of $79,744 in revenues from product sales as agent can be attributed to: (i) an increase of $72,469 (25.00%) in Bell long distance cards; (ii) an increase of $5,307 (381.52%) in other gift card offerings; and (iii) an increase of $1,968 (75.11%) in MasterCard gift card.

Gross margin

Gross margin for the three-month period ended December 31, 2010 was $588,228 (4.41%), compared to gross margin for the three-month period ended December 31, 2009 of $626,755 (4.61%), representing a decrease of $38,527 (6.15%) or 0.20% in gross margin. This decrease of $38,527 (6.15%) or 0.20% in gross margin is explained by the decrease in ATM segment gross margin of $8,906 (9.15%), or 14.64% in gross margin, in corporate items of $924 and in the prepaid products segment of $28,697 (5.58%) with a 0.03% increase in gross margin.

The gross margin of the prepaid products segment increased from 3.91% for the three-month period ended December 31, 2009 to 3.94% for the three-month period ended December 31, 2010. This represents a real dollar increase in the margin on the prepaid products segment of approximately $4,552. This increase can be explained as follows: (i) a 0.42% decrease in the pure gross profit (from 3.98% in 2009 to 3.565% in 2010) relating to the gross margins from PIN service providers, the level achieved being consistent with the gross profit of the prior year which together resulted in a net cash decrease of approximately $86,366; and (ii) an increase in net gross margins in sales as agent of $34,396 (38.44%) explained mainly by an increase in gross margin in long distance cards of $29,636 (35.24%), in MasterCard gift cards of $3,407 (130.04%) and of other gift card offerings of $1,353 (49.33%). Finally, there were decreases in costs related to commissions of $22,226 (26.24%) and to the maintenance of the POS network as a whole of $1,326 (12.73%).

The gross margin of the ATM segment decreased 14.64% from 23.39% in 2009 to 8.75% in 2010. This represents a real dollar decrease in the margin on the ATM segment of approximately $236,288. This decrease can be explained as follows: (i) a 2.33% increase in the pure gross profit (from 18.29% in 2009 to 20.62% in 2010) relating to traditional ATM location costs along with a decrease in revenues from traditional ATM locations, which together resulted in a net cash decrease of approximately $66,322; (ii) whereas had the margins under the Ultramar agreement achieved a level consistent with the gross profit of the prior year for rest of the network of 23.39%, then the additional cash generated would have amounted to approximately $169,966.

Gross margin for the nine-month period ended December 31, 2010 was $2,238,000 (5.15%), compared to gross margin for the nine-month period ended December 31, 2009 of $2,096,709 (5.03%), representing an increase of $141,291 (6.74%), or 0.12% in gross margin. This increase of $141,291 in gross margin is explained by the increase in ATM segment gross margin of $173,119 (55.23%), offset by a decrease in prepaid products segment gross margin of $29,060 (1.67%) and in corporate items of $2,768 (6.07%).

The gross margin of the prepaid products segment decreased from 4.28% for the nine-month period ended December 31, 2009 to 4.24% for the nine-month period ended December 31, 2010. This represents a real dollar decrease in the margin on the prepaid products segment of approximately $18,556 or 0.04%. This decrease can be explained as follows: (i) a 0.33% decrease in the pure gross profit (from 4.13% in 2009 to 3.80% in 2010) relating to the gross margins from PIN service providers, the level achieved being consistent with the gross profit of the prior year which together resulted in a net cash decrease of approximately $144,539; and (ii) an increase in net gross margins in sales as agent of $79,744 (27.13%) explained mainly by a increase in gross margin in long distance cards of $72,469 (25.00%), in MasterCard gift cards of $1,968 (75.11%) and in other gift card offerings of $5,307 (381.52%). Finally, there were decreases in costs related to commissions of $32,383 (17.09%), to the maintenance of the POS network as a whole of $3,142 (11.84%) and in others costs in the amount of approximately $10,714.

The gross margin of the ATM segment for the nine-month period ended December 31, 2009 decreased from 30.03% in 2009 to 15.54% in 2010. This represents a real dollar decrease in the margin on the ATM segment of approximately $453,820. This decrease can be explained as follows: (i) a 1.35% decrease in the pure gross profit (from 29.11% in 2009 to 27.75% in 2010) relating to traditional ATM location costs along with a decrease in revenues from traditional ATM locations, which together resulted in a net cash decrease of approximately $129,649; (ii) whereas had the margins under the Ultramar agreement achieved a level consistent with the gross profit of the prior year for rest of the network of 30.03%, then the additional cash generated would have amounted to approximately $324,170.

Selling and administrative expenses

Selling and administrative expenses for the three-month period ended December 31, 2010 were $389,887, compared to $483,222 for the three-month period ended December 31, 2009. Selling and administrative expenses decreased year-over-year by $93,335 (19.32%). This year-over-year decrease of $93,335 is explained by an increase in insurance expense of $2,753 (21.36%), in taxes and licenses of $6,459 (73.08%) and in utilities expense of $3,295 (23.21%), offset by a decrease in office expenses of $8,780 (17.18%), in professional fees of $8,891 (14.74%), in rent expenses of $922 (100.00%), in office salaries and benefits of $53,828 (24.26%), in selling expenses of $32,071 (32.24%) and in telecommunications expense of $1,350 (9.93%).

The decrease in office salaries and benefits of $53,828 is explained by the increase in Saratoga ATM's office salaries and benefits of $29,814 (100.00%), offset by the decrease in Car-Tel's office salaries and benefits of $52,384 (28.74%) and the decrease of $31,100 (78.85%) in the office salaries and benefits that are included in the corporate items and eliminations segment. Saratoga ATM's increase in office salaries and benefits of $29,814 is mainly due to the transfer of management salaries from Car-Tel to Saratoga ATM. The decrease of $31,100 in office salaries and benefits that are included in the corporate items and eliminations segment is explained by the President and Chief Executive Officer's forgiveness of salary. Car-Tel's office salaries and benefits decrease of $52,384 is explained by the transfer in salaries and benefits to Saratoga ATM's operations and in operations reorganizations and departures in the amount of approximately $28,031 and the decrease in general operations salaries of approximately $24,353.

The decrease in selling expenses of $32,071 (32.24%) is mainly explained by Car-Tel's efforts to reduce overhead costs given its view that the POS market has reached maturity in the Province of Quebec. In reaction to the saturation of the POS market in the Province of Quebec, Car-Tel decreased its selling expenses by $27,573 (31.06%). In addition, the ATM segment decreased its selling expenses by $7,110 (66.45%) which was offset by an increase in corporate items selling expenses of $2,611 (100.00%). The decrease in Car-Tel's selling expenses by $27,573 is in the form of decreases in selling salaries and benefits in the amount of $43,682 (95.26%), offset by an increase in travel costs of $10,357 (24.58%) and in publicity and promotion of $5,752 (740.28%).

Selling and administrative expenses for the nine-month period ended December 31, 2010 were $1,251,910, compared to $1,566,688 for the nine-month period ended December 31, 2009. Selling and administrative expenses decreased year-over-year by $314,778 (20.09%). This year-over-year decrease of $314,778 is explained by an increase in insurance expense of $1,512 (4.84%) and in taxes and licenses of $12,193 (59.16%), offset by a decrease in office expenses of $10,679 (7.71%), in professional fees of $32,553 (12.28%), in office salaries and benefits of $127,946 (19.44%), in selling expenses of $143,142 (39.65%), in telecommunications expense of $9,124 (19.51%), in utilities expense of $2,910 (6.70%) and an increase in various other items in the total amount of approximately $2,129 (0.14%).

The decrease in office salaries and benefits of $127,946 is explained by the decrease of $123,641 (85.14%) in the office salaries and benefits that are included in the corporate items and eliminations segment and in Car-Tel’s office salaries and benefits of $68,201 (13.43%), offset by the increase in Saratoga ATM’s office salaries and benefits of $63,896. Saratoga ATM’s increase in office salaries and benefits of $63,896 is mainly due to the transfer of management salaries from Car-Tel to Saratoga ATM. The decrease of $123,641 in office salaries and benefits that are included in the corporate items and eliminations segment is explained by the President and Chief Executive Officer’s forgiveness of salary in the amount of $122,141 (92.73%) and in director’s fees of $1,500 (11.11%). Car-Tel’s office salaries and benefits decrease of $68,201 is explained by the transfer in salaries and benefits to Saratoga ATM’s operations and in operations reorganizations and departures in the amount of approximately $69,212 and a decrease in general operations salaries of approximately $110,929, offset by Car-Tel’s president retroactive salary of approximately $37,500 due to his signing a three-year employment contract and a provision for bonus of approximately $20,000 for the Chief Information Officer.

The decrease in selling expenses of $143,141 (39.65%) is mainly explained by Car-Tel’s efforts to reduce overhead costs given its view that the POS market has reached maturity in the Province of Quebec. In reaction to the saturation of the POS market in the Province of Quebec, Car-Tel decreased its selling expenses by $137,107 (41.13%). In addition, the ATM segment decreased its selling expenses by $12,598 (49.08%), which was offset by an increase in corporate items selling expenses of $6,564 (330.35%). The decrease in Car-Tel’s selling expenses by $137,107 is in the form of decreases in selling salaries and benefits in the amount of $63,798 (43.15%), in travel costs of $47,638 (35.06%) and in publicity and promotion of $25,671 (51.68%)

Financial expenses

Financial expenses for the three-month period ended December 31, 2010 were $9,884, compared to $11,314 for the three-month period ended December 31, 2009, representing an increase of $1,430 (12.64%).

Financial expenses for the nine-month period ended December 31, 2010 were $17,914, compared to $19,561 for the nine-month period ended December 31, 2009, representing a decrease of $1,647 (8.42%).

Stock-based compensation

Stock-based compensation for the three-month period ended December 31, 2010 was Nil, compared to $4,448 for the three-month period ended December 31, 2009, representing a year-over-year decrease of $4,448.

Stock-based compensation for the nine-month period ended December 31, 2010 was Nil, compared to $13,345 for the nine-month period ended December 31, 2009, representing a year-over-year decrease of $13,345.

Operating income before undernoted items, non-controlling interest and income taxes

The Company realized an operating income of $188,457 for the three-month period ended December 31, 2010, compared to an operating income of $127,771 for the three-month period ended December 31, 2009. On a segmented business basis, this $60,686 (47.50%) increase in operating income is a result of a year-over-year increase of $58,641 (37.01%) in operating income in the prepaid products segment and of $19,570 (25.98) in operating loss in corporate items and eliminations, offset by a decrease of $17,525 (39.24%) in operating income in the ATM segment.

The Company realized an operating income of $968,176 for the nine-month period ended December 31, 2010, compared to an operating income of $488,344 for the nine-month period ended December 31, 2009. On a segmented business basis, this $479,832 (98.26%) increase in operating income is a result of a year-over-year increase of $118,614 (55.11%) in operating income in the ATM segment, of $188,948 (28.70%) in operating income in the prepaid products segment and of $172,270 (44.73%) in corporate items and eliminations.

Undernoted items

The net expense in undernoted items totaled $435,343 for the three-month period ended December 31, 2010, compared to $353,792 for the three-month period ended December 31, 2009, representing an increase of $81,551 (23.05%).

This three-month year-to-year increase of $81,551 is explained by a decrease in amortization of property and equipment of $14,034 (11.61%), in amortization of intangible assets of $4,167 (2.85%), in money remittance development costs commitment of $2,786 (75.67%), in interest on loans payable and long-term debt of $19,053 (20.63%) and in loss on disposition of property and equipment of $5,309 (100.00%), offset by an increase in interest on bank loans of $4,000 (29.36%), in recovery of contingencies of $28,301 (100.00%) and in strategic revision process costs of $94,599 (100.00%).

The decrease of $14,034 in amortization expenses is mainly explained by the increase in amortization expenses in the ATM segment of $532 (0.95%), offset by the decrease in amortization expenses in the prepaid products segment of $13,690 (25.92%) and in amortization expenses of $876 (7.34%) in connection with corporate items and eliminations. The ATM segment increase of $532 in amortization expenses is explained by an increase in the amortization expense of assets under capital lease of $2,445 (8.17%) and by a general decrease of $1,913 (3.41%) in respect of other assets.

The decrease of $4,167 in amortization of intangible assets is mainly explained by the decrease in amortization in Car-Tel's licensing platform agreement which expired on December 31, 2010.

The increase in interest on bank loans of $4,000 is explained by a year-to-year increase in the Company's revolving operating lines of credit.

The decrease of $19,053 in the interest expense on loans payable and long-term debt is mainly explained by the reimbursement of long-term debt.

The net expense in undernoted items totaled $1,141,598 for the nine-month period ended December 31, 2010, compared to $1,105,977 for the nine-month period ended December 31, 2009, representing an increase of $35,621 (3.22%). This nine-month year-to-year increase of $35,621 is explained by a decrease in amortization of intangible assets of $140,834 (24.48%), in interest on loans payable and long-term debt of $6,154 (2.49%) and in loss on disposition of property and equipment of $13,408 (100.00%), offset by an increase in amortization of property and equipment of $14,545 (4.93%), in interest on bank loans of $10,406 (26.93%), in money remittance development costs commitment of $48,167 (135.87%), in recovery of contingencies of $28,031 (100.00%) and in strategic revision process costs of $94,598 (100.00%).

The increase of $14,545 in amortization expenses is mainly explained by the increase in amortization expenses in the ATM segment of $58,755 (58.25%), offset by the decrease in amortization expenses in the prepaid products segment of $41,584 (26.24%) and in amortization expenses of $2,626 (7.34%) in connection with corporate items and eliminations. The ATM segment increase of $58,223 in amortization expenses is explained by an increase in the amortization expense of assets under capital lease of $58,053 (194.24%) and by a general increase of $170 in respect of other assets.

The decrease of $140,834 in amortization of intangible assets is mainly explained by the decrease in amortization in the prepaid products segment of the non-competition agreement which expired on September 30, 2009 and of Car-Tel's platform licensing fee which expired on December 31, 2010.

The increase in interest on bank loans of $10,406 is explained by a year-to-year increase in the Company's revolving operating lines of credit.

The increase of $6,154 in the interest expense on loans payable and long-term debt is mainly explained by the reimbursement of debt, which represents a decrease in the interest expense in long-term debt of $49,959, offset by an increase in interest obligations under capital leases of $34,680 (187.90%) and under a bank loan of $9,125 (699.23%).

The increase in strategic revision process costs of $94,598 is explained by the costs incurred by the special committee of the Board of Directors, being consulting fees of $47,250 paid to an outside advisor and of $28,170 paid to the Company's Chief Financial Officer, legal fees of $15,914 and other general expenses of $3,266.

Income taxes

The income taxes expense of $131,451 for the nine-month period ended December 31, 2010, compared to the recovery of income taxes of $10,281 for the nine-month period ended December 31, 2010, represents an increase in net income taxes expense of $141,732. The increase of $141,732 in the income tax expense is mainly explained by the increase of $28,837 in the provision for income taxes in the ATM segment and of $112,895 in the provision for future income taxes expenses.

The increase of $28,837 in the provision for income taxes in the ATM segment is mainly explained by the increase of $18,556 in the income taxes provision for the period ended December 31, 2010 and by the decrease in recovery of income taxes of $10,281 for the period ended December 31, 2009.

The future income taxes expense of $112,895 is mainly explained by the use by Car-Tel of taxable income of approximately $375,700 against non-capital loss carry forwards in order to reduce its future income taxes assets by the amount of $117,359 and by Saratoga ATM increasing future income taxes liabilities by $4,464 for differences in asset and liabilities of obligations under capital leases.

Net income (loss) and comprehensive income (loss)

The Company realized a net loss for the three-month period ended December 31, 2010 of $378,337, compared to a net loss for the three-month period ended December 31, 2009 of $226,021, representing an increase in net loss of $152,316 (67.39%).

The Company realized a net loss for the nine-month period ended December 31, 2010 of $304,873, compared to a net loss for the nine-month period ended December 31, 2009 of $607,352, representing a decrease in net loss of $302,479 (49.80%).

Earnings (loss) per share-basic

The loss per share - basic and diluted for the three-month period ended December 31, 2010 was $0.02049, compared to a loss per share - basic and diluted for the three-month period ended December 31, 2009 of $0.01212, calculated on a weighted average number of 18,461,300 outstanding common shares at December 31, 2010 and of 18,648,300 outstanding common shares at December 31, 2009.

The loss per share – basic and diluted for the nine-month period ended December 31, 2010 was $0.01651, compared to a loss per share - basic and diluted for the nine-month period ended December 31, 2009 of $0.03257, calculated on a weighted average number of 18,461,300 outstanding common shares at December 31, 2010 and of 18,648,300 outstanding common shares at December 31, 2009.

CHANGE IN FINANCIAL POSITION

The following table summarizes certain financial data related to the Company and should be read in conjunction with the Company's unaudited consolidated financial statements for the nine-month periods ended December 31, 2010 and 2009.

	For the three-month period ended		**For the nine-month period ended**	
	December 31, 2010 (unaudited)	**December 31, 2009 (unaudited)**	**December 31, 2010 (unaudited)**	**December 31, 2009 (unaudited)**
	$	**$**	**$**	**$**
Cash flow from (used in) operating activities	5,455	(722,511)	(5,247)	(510,180)
Cash flow from (used in) investing activities	(1,088)	876	(26,558)	(89,231)
Cash flow from (used in) financing activities	(178,599)	269,347	(794,381)	241,283
Net increase (decrease) in cash and cash equivalents	(174,232)	(452,288)	(826,186)	(358,128)

Operating activities

Cash flows generated in operating activities were $5,455 for the three-month period ended December 31, 2010, compared to cash flows used of $722,511 for the three-month period ended December 31, 2009. The increase of $727,966 (100.76%) in cash flows generated from operating activities is primarily attributable to an increase of net loss of $152,316 (67.39%) and an increase in non-cash working capital items of $795,345 (102.84%), offset by generated cash flow in non-working capital adjustments of $84,937 (30.67%).

Cash flows used in operating activities were $5,247 for the nine-month period ended December 31, 2010, compared to cash flows used of $510,180 for the nine-month period ended December 31, 2009. The decrease of $504,933 (98.97%) in cash flows used in operating activities is primarily attributable to a decrease of net loss of $302,479 (49.80%) and a decrease in non-cash working capital items of $242,601 (30.32%), offset by used cash flow from non-working capital adjustments of $40,147 (4.47%).

The increase in use of non-cash working capital items of $242,601 is mainly explained by the inclusion of one additional sales day in the nine-month period ended December 31, 2010, as compared to the nine-month period ended December 31, 2009. As a result, accounts receivable increased by $84,247, inventories increased by $116,903 as the Company postponed some suppliers purchases by one day, sales taxes increased by $116,903 as sales taxes recovery were faster and accounts payable and accrued liabilities decreased by $504,609 as they are paid on Fridays.

Investing activities

Cash flows used in investing activities were $1,088 for the three-month period ended December 31, 2010, compared to cash flows generated from investing activities for the three-month period ended December 31, 2009 in the amount of $876. The decrease of $1,964 (224.20%) in cash flows generated from investing activities is primarily attributable to an increase in the repayment of loans from private companies of $49 (5.59%) and an increase in the acquisition of property and equipment of $1,915 (100.00%).

Cash flows used in investing activities were $26,558 for the nine-month period ended December 31, 2010, compared to cash flows used in investing activities for the nine-month period ended December 31, 2009 in the amount of $89,231. The decrease of $62,673 (70.24%) in cash flows used in investing activities is primarily attributable to an increase in the repayment of loans from private companies of $12 (0.46%), a decrease in proceeds on disposal of property and equipment of $1,000 (100.00%) and a decrease in the acquisition of property and equipment of $63,661 (68.55%).

Financing activities

Cash flows used in financing activities were $178,599 for the three-month period ended December 31, 2010, compared to cash flows generated of $269,347 for the three-month period ended December 31, 2009. This increase of $447,946 (166.31%) used in financing activities is mostly a result of a decrease in new bank loans of $105,346 (88.26%), a decrease in new loans payable to private companies of $325,000 (92.86%), and a decrease in the repayment of long-term debt of $20,050 (11.68%), an increase in the redemption of preferred shares held by non-controlling interest in the amount of $37,500 (2009 – Nil) and an increase in the redemption of common shares in the amount of $150 (2009 – Nil).

Cash flows used in financing activities were $794,381 for the nine-month period ended December 31, 2010, compared to cash flows generated of $241,283 for the nine-month period ended December 31, 2009. This increase of $1,035,664 (429.23%) used in financing activities is mostly a result of a decrease in net generated bank loans of $437,691 (112.65%), an increase in the repayment of net loans payable to private companies of $575,000 (164.29%), an increase in new long-term debt of $55,852, a decrease in the repayment of long-term debt of $58,225 (14.13%), an increase in the redemption of preferred shares held by non-controlling interest in the amount of $112,500 (2009 – Nil) and an increase in the redemption of common shares in the amount of $24,550 (2009 – Nil).

BALANCE SHEET

The following table summarizes certain financial data related to the Company and should be read in conjunction with the Company’s unaudited consolidated financial statements for the nine-month periods ended December 31, 2010 and 2009.

	December 31, 2010 (unaudited)	**March 31, 2009 (audited)**
	$	$
Total assets	8,562,993	9,512,944
Bank loans	1,764,434	1,813,580
Loans payable	175,000	400,000
Long-term debt	2,078,619	2,267,924
Non-controlling interest	1,270,000	1,467,700
Shareholders’ equity	(1,902,852)	(1,573,429)

The total assets of the Company amounted to $8,562,993 as at December 31, 2010, compared to $9,512,944 as at March 31, 2010, representing a decrease of $949,951 (9.99%). This decrease is mainly explained by the increase in account receivables of $84,247 (4.37%) and in inventories of $116,903 (13.15%), offset by a decrease in cash of $283,075 (100.00%), in cash in circulation in automated teller machines of $24,640 (2.32%), in prepaid expenses of $32,271 (46.03%), in recoverable sales taxes of $110,430 (37.65%), in loans receivable – private companies of $2,646 (40.15%), in property and equipment of $171,787 (6.10%), in intangible assets of $434,583 (75.63%) and in future income taxes of $91,669 (13.08%).

The Company's current liabilities increased by $70,947 (0.91%) as at December 31, 2010 to $7,865,492, compared to $7,794,545 as at March 31, 2010. The increase in current liabilities is mainly explained by the increase in bank indebtedness of $518,471 (2009 – Nil), in the current portion of long-term debt of $329,478 (52.18%) and in income taxes payable of $5,535 (30.30%), offset by a decrease in bank loans of $49,146 (2.71%), in accounts payable and accrued liabilities of $504,609 (10.28%), in the current portion of loans payable of $225,000 (56.25%) and in future income taxes of $3,782 (16.96%).

Long-term liabilities decreased to $1,330,353 as at December 31, 2010, compared to $1,824,128 as at March 31, 2010. The decrease of $493,775 (27.07%) in long-term liabilities results from a decrease in long-term debt of $518,783 (31.70%) offset by an increase in future income taxes of $25,008 (13.33%).

Total long-term debt decreased to $2,078,625 as at December 31, 2010, compared to $2,267,924 as at March 31, 2010. The decrease of $189,299 (8.35%) in long-term debt is mainly explained by the net increase in obligations under capital leases of $30,565 (5.44%), comprised of new obligations under capital leases of $108,680, offset by reimbursements of obligations under capital leases of $78,115, by the net increase in bank loan of $17,902 (23.19%), comprised of new bank loans of $55,852, by bank loan reimbursements of $37,950 and by the decrease in a loan to a company under the control of a former director of $182,950 (28.58%), as well as by the decrease in various other loans of approximately $1,743.

Non-controlling interest

Non-controlling interest decreased to $1,270,000 as at December 31, 2010, compared to $1,467,700 as at March 31, 2010. The decrease of $197,700 (13.47%) in non-controlling interest is mainly explained by the redemption of non-controlling interest preferred shares of $112,500 and by dividends paid of $85,200.

Shareholders' equity

Shareholders' equity decreased to ($1,902,852) as at December 31, 2010, from ($1,573,429) as at March 31, 2010.

Issued and outstanding capital

As of February 28, 2011, the Company has a weighted average of 18,461,300 issued and outstanding voting participating common shares. In accordance with the Normal Course Issuer Bid, the Company has purchased for cancellation 187,000 issued and outstanding shares in its share capital for an aggregate total of $24,550. Given the initiation by the Company of a process to explore and consider possible strategic alternatives for enhancing shareholder value, purchases of shares pursuant to the Normal Course Issuer Bid have been suspended.

Furthermore, the Company has granted stock options under the Company's stock option plan to the Company's officers, directors and employees. The number of exercisable stock options outstanding as of February 28, 2011 is 280,000, at a weighted average exercise price of $0.26.

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

As of February 28, 2011, the Company has not issued any preferred shares.

RELATED PARTY TRANSACTIONS

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

Company under common control

Until August 1, 2008, the Company leased POS machines from Saratoga Leasing Inc., a company owned by the Company's principal shareholder and Chief Executive Officer Georges Durst (leasing contracts were terminated as of July 31, 2008). As at December 31, 2010, the Company had loans payable to Saratoga Leasing Inc. in connection with the purchase from Saratoga Leasing Inc. of 1,271 POS machines. These loans generated accounts payable and accrued liabilities of $6,776 (2009 - $14,301) and an interest expense and financing fee of $53,010 (2009 - $72,831) for the nine-month period ended December 31, 2010.

Companies with common directors

The Company leases office space to Saratoga Multi-Média Inc., a company related to the Company's principal shareholder and Chief Executive Officer Georges Durst, pursuant to a ten year lease. During the nine-month period ended December 31, 2010, the Company realized rental income of $7,332 (2009 - $7,332) from such lease, and, as at September 30, 2010, the Company had a related account receivable of $1,839 (2009 - Nil).

The Company leases office space to Maison du Jazz Inc., a company related to the Company's principal shareholder and Chief Executive Officer Georges Durst, pursuant to a ten year lease. During the nine-month period ended December 31, 2010, the Company realized rental income of $6,969 (2009 - $6,969) from this lease, and, as at December 31, 2010, the Company had a related account receivable of $4,591 (2009 - $2,660).

As at December 31, 2010, the Company had loans payable to Saratoga Multi-Média Inc., a company related to the Company's principal shareholder and Chief Executive Officer Georges Durst, resulting in accounts payable and accrued liabilities in the amount of $4,461 (2009 – $4,861), and an interest expense of $48,149 (2009 - $48,230) for the nine-month period ended December 31, 2010.

Until December 19, 2007, the Company leased office space from Saratoga Multi-Média Inc., a company related to the Company's principal shareholder and Chief Executive Officer Georges Durst, generating accounts payable and accrued liabilities of $1,856 as at December 31, 2010 (2009 - $1,856).

Each of the transactions described above was entered into in the normal course of operations and was measured at the exchange amount, which is the amount of consideration established and agreed upon by the related parties. The balances above are subject to normal terms of trade.

Directors

The Company paid professional fees to the law firm of Seal Seidman S.E.N.C., a firm of which Donald Seal, a director of the Company, is a partner, in the amount of $34,200 for the nine-month period ended December 31, 2010 (2009 – $49,500). The Company had a related account payable of Nil (2009 - $18,286).

The Company had loans payable to Don Seal, a director of the Company, as at December 31, 2010 of nil, compared to loans payable as at March 31, 2010 of $150,000, resulting in interest expense for the nine-month period ended December 31, 2010 of $1,500 (2009 - Nil).

The Company paid professional fees to 91040097 Québec Inc., a firm of which Martin Fontaine, a director of the Company, is an owner, in the amount of $21,000 for the nine-month period ended December 31, 2010 (2009 – Nil).

During the nine-month period ended December 31, 2010, the Company paid director's fees in the amount of $12,000 (2009 – $13,500).

Included in accounts receivable is an amount of nil as at December 31, 2010 (2009 - $1,974) relating to amounts owing from Georges Durst, the Company's principal shareholder and Chief Executive Officer.

Each of these transactions was entered into in the normal course of operations and was measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The balances above are subject to normal terms of trade.

OUTLOOK

In the current fiscal year, the Company anticipates realizing further positive results from the integration of its ATM and prepaid products sales forces, in terms of increased cross-selling activities and improved customer service. As regards the Company's ATM business, the Company deployed approximately 220 ATMs to Ultramar, with an anticipated 20 additional ATMs to be deployed this year as Ultramar expands its number of gas station locations and affiliated merchants. The full impact of this agreement with Ultramar on the Company's revenues is expected to be reflected by year-end.

The Company's Board of Directors has initiated a process to explore and consider possible strategic alternatives for enhancing shareholder value, including a possible sale of the Corporation. The Company has not set a definitive timetable for completion of its evaluation and there can be no assurance that this process will lead to the approval or completion of any definitive agreement or other transaction.

NEW ACCOUNTING STANDARDS

Intangible assets

On April 1, 2009, the Company adopted section 3064 of the CICA Handbook – Goodwill and Intangible Assets which replaced Section 3062 - Goodwill and Other Intangible Assets as well as Section 3450 - Research and Development Costs. The new standard clarifies and enhances the recognition criteria of intangible assets and provides guidance on the recognition and measurement of internally generated assets, including assets developed from research and development activities. This new standard reinforces the principal-based approach to the recognition of assets, however, only in accordance with the definition of an asset. The adoption of this standard did not have any effect on the financial statements of the Company.

Credit risk and the fair value of financial assets and financial liabilities

On January 20, 2009, the Company retroactively adopted Emerging Issues Committee ("EIC") Abstract 173, which requires the Company to consider its own credit risk and the credit risk of the counterparty to a financial instrument in determining the fair value of its financial assets and financial liabilities. The adoption of this EIC did not have any effect on the financial statements of the Company.

Future accounting policy changes

Consolidated financial statements and non-controlling interests

In January 2009, the Accounting Standards Board ("AcSB") released Section 1601 - Consolidated Financial Statements and Section 1602 - Non-Controlling Interest, which replace Section 1600 - Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements and for accounting for a non-controlling interest in a subsidiary in the consolidated financial statements of the parent subsequent to a business combination.

These sections apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. These sections must be applied together with Section 1582 - Business Combinations if they are implemented for a fiscal year beginning before January 1, 2011.

Business combinations

In January 2009, the AcSB released Section 1582, which replaces Section 1581 - Business Combinations. As it relates to the Company, this section applies prospectively to business combinations that occur after April 1, 2011. Earlier application is permitted. Section 1582 must be applied together with Section 1601 and Section 1602 if it is implemented for a fiscal year beginning before January 1, 2011.

The Company is currently assessing the future impact of these new Sections on its consolidated financial statements.

IFRS TRANSITION

The Canadian Accounting Standards Board has confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be fully converged with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. The changeover date is effective for interim and annual financial reporting for fiscal year ends beginning on or after January 1, 2011, which for the Company will be April 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures which the Company must address.

IFRS 1 – Mandatory exceptions and optional exemptions relevant to the Company

Use of estimates

Retrospective adjustments to accounting judgements or estimates are not allowed as part of the transition to IFRS, unless there is objective evidence that those estimates were in error. The Company currently expects to use the same estimates in preparing its June 30, 2011 IFRS financial statements as it will use in preparing its Canadian GAAP financial statements for the same period.

Business combinations

Three choices are provided for retrospective application to past business combinations: (i) apply the standard to all past business combinations; (ii) apply the standard to all past business combinations after a particular date prior to the transition date; or (iii) apply the standard prospectively to all business combinations after the transition date. The Company expects to elect to apply the standard to all business combinations occurring after the transition date.

Fair value of property, plant and equipment as deemed cost

Property and equipment at the transition date can be recorded at either fair value or carrying value. This option can be applied separately to each asset or class of assets. The Company currently expects to use the carrying value at the transition date.

Expected IFRS accounting policies

Property, plant and equipment

After the transition date, the Company is required, under IAS 16, to choose for each class of asset whether to use the cost model or the revaluation model. The Company currently expects to use the cost model for each class of asset. In addition, the standard also requires that the Company evaluate, identify and separately record and amortize each component of an asset that is significant to its overall cost based on the expected life of each individual component.

Intangible assets

IAS 38 has been substantially converged with CICA Handbook Section 3064 – Goodwill and Intangible Assets, and as such, the Company does not expect any significant impact upon transition to this standard.

Impairment of assets

IAS 36 states that assets should be tested separately for impairment and where the recoverable amount cannot be estimated for individual assets, it should be estimated as part of a cash-generating unit. The Company expects its cash generating units under IFRS to be the same as those under Canadian GAAP. IFRS uses a one-step process for testing and measuring impairment of long-lived assets, rather than the two-step method under Canadian GAAP. IFRS also requires reversal of impairments of long-lived assets where the adverse circumstances have reversed, with the exception of goodwill, where an impairment cannot be reversed. The Company expects the effects of these changes to be minimal.

Business combinations

IFRS 3 will generally result in measuring business combinations at the fair value of the acquired business and a prospectively applied shift from a parent company conceptual view of consolidation (which results in the parent company recording book values attributable to non-controlling interests) to an entity conceptual view (which results in the parent company recording fair values attributable to non-controlling interests). Measuring business acquisitions at fair value will result in (i) acquisition costs being expensed; (ii) acquisition created restructuring costs being expensed; (iii) contingent consideration, which is accounted for as a financial liability, being measured at fair value at the time of the acquisition with subsequent changes in its fair value being included in determining the results of operations; and (iv) changes in non-controlling ownership interests subsequent to the parent company's acquisition of control, and not resulting in the parent company's loss of control, being accounted for as a capital transaction.

Consolidated and separate financial statements

The adoption of IAS 27 will result in a change in the presentation and disclosure of non-controlling interests on the Company's consolidated financial statements. The consolidated statements of financial position (referred to as balance sheets under Canadian GAAP) will recognize non-controlling interest as a separate component of equity. Furthermore, the consolidated statements of loss and comprehensive loss will present an attribution of the net loss and comprehensive loss between the Company's shareholders and non-controlling interests rather than reflecting the non-controlling interests in the results of operations as a deduction at arriving at net loss and comprehensive loss.

IFRS changeover plan

The Company has developed a plan to convert its consolidated financial statements to IFRS by establishing a cross-functional implementation team led by the Chief Executive

Officer and Chief Financial Officer, which will consist of internal resources composed by Company's management team in accounting, internal controls and processes, planning, investor relations, IT and data systems. The plan includes the use of external consultants in accounting, taxation and legal. A changeover plan is being established to convert to the new standards within the allotted timeline and is expected to consist of the following three key project phases:

1. Raise awareness and assessment phase
2. Design phase
3. Implementation phase

Phase 1: Raise awareness and assessment phase

The first phase of the conversion project has two stages: firstly, raising awareness within the Company and providing an initial assessment of the IFRS conversion and secondly, carrying out a detailed assessment of the impact of the conversion to IFRS. The Company will thoroughly review and analyze accounting or disclosure differences between Canadian GAAP and IFRS. During this phase, external consultants will assist the project team. Once differences have been identified they will be reviewed for potential impacts on existing accounting policies, information systems and business processes. An action plan will be developed for each impact area. The Company plans to start this phase in March 2011.

Phase 2: Design phase

The design phase will build the tools required for the conversion based on management's and the audit committee's decisions about accounting options and related disclosures. During this phase, external consultants will assist the project team in designing the changes to the implemented tools relating to accounting and consolidation processes.

The design phase will also involve revisiting the communication and training strategies to be carried out during the implementation of IFRS and updating the operational and milestone plans, and maintaining an issues log for the finalization of actions to be taken during the implementation phase.

Phase 3: Implementation phase

The implementation stage is about execution. The roll-out of the designed changes takes place during this phase. This phase assures:

- Development of new accounting policies, guidelines and consolidation templates;
- Preparation of the IFRS financial statements and related disclosures.

All phases are expected to be completed by the fourth quarter of 2011.

With regard to IFRS transition, the Company has thoroughly analyzed the optional exemptions available under IFRS 1 First-time Adoption of International Financial Reporting Standards. The decisions about the optional exemptions available under IFRS 1 are preliminary at this time. The decisions about accounting policy choices available under IFRS 1 and other individual IFRS standards will be disclosed throughout 2011 as they are reviewed by the audit committee and finalized. Training to affected employees, management, audit committee members and the board will continue to progress during the course of the year.

The following table summarizes the Company's activities in connection with the transition to IFRS.

	Key activities	**Status**
Accounting policies and implementation decisions	Identification of differences in Canadian GAAP and IFRS accounting policies; Selection of the Company's ongoing IFRS policies; Selection of the Company's IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1'') choices; Development of financial statement format; Quantification of effects of change in initial IFRS 1 disclosures on 2011 financial statements.	The Company has indentified differences between accounting policies under Canadian GAAP and accounting policy choices under IFRS, both on an ongoing basis and with respect to certain choices available on conversion, made in accordance with IFRS 1. The Company will continue to progress towards the quantification of the identified differences and choices throughout 2011.
Infrastructure Financial reporting expertise	Development of IFRS expertise.	The Company has provided training for key employees and stakeholders. Additional training will be ongoing until full adoption in 2011.
Infrastructure Information technology and data systems	Development of systems solution for transition period and post-convergence period.	The Company is in the process of analyzing system requirements and solutions.
Business activities Financial covenants	Identification of impact on financial covenants and business practices; Completion of any required renegotiations / changes by the fourth quarter of 2011.	The Company is in the process of analyzing the contractual implications of IFRS on any financing relationships and other arrangements.
Business activities Compensation arrangements	Identification of impact on compensation arrangements; Assessment of required changes by the fourth quarter of 2011.	The Company is in the process of analyzing any compensation policies that rely on indicators derived from the financial statements.
Control activities Internal control over financial reporting	For all accounting policy changes identified, assessment of Internal Controls over Financial Reporting ("ICFR'')	The Company is in the process of analyzing any issues with respect to ICFR.

	design and effectiveness; Implementation of appropriate changes by the fourth quarter of 2011.	
Control activities Disclosure controls and procedures	For all accounting policy changes identified, assessment of Disclosure Controls and Procedures (“DC&P’’) design and effectiveness implications; Implementation of appropriate changes by the fourth quarter of 2011.	The Company is in the process of analyzing any issues with respect to DC&P.

ACCOUNTING POLICIES AND ESTIMATES

The consolidated financial statements of the Company for the nine-month period ended December 31, 2010 were prepared by management in accordance with Canadian GAAP. To prepare financial statements in accordance with GAAP in Canada, the Company’s management is required to make estimates and assumptions that influence the amounts reported and disclosed in the consolidated financial statements and the notes thereto. These estimates are based on management’s knowledge of current events and steps that the Company may take in the future. Actual results may differ from these estimates. Among the accounting policies set out in note 2 of the consolidated financial statements of the Company, management has identified the following critical accounting estimates: revenue recognition, estimating the useful lives of property, equipment and equipment held for leasing, estimating the useful lives of deferred development costs as well as assessing the recoverability of future tax assets. Using the most current information available, management reviews its estimates on an ongoing basis. Actual results could differ from those estimates.

RISKS AND UNCERTAINTIES

Management determines whether or not information is material based on whether it believes a reasonable investor’s decision to buy, sell or hold securities in the Company would likely be influenced or changed if the information were omitted or misstated.

The Company is subject to various risks and uncertainties as a result of its operations, most notably risks related to security and the loss of key merchants. Risks that could affect the Company’s profitability are regularly identified, measured and supervised. In order to protect the Company from these various risks, the Company ensures stringent security policies and regularly reviews client contracts to ensure that merchants are content.

There is limited historical data available to the Company upon which it may base an evaluation of its business and its outlook. Its outlook must be examined based on risks and uncertainties associated with all companies and all new emerging markets. Among the risk factors at play are those related to the progressive and unchartered nature of aspects of the Company’s business itself, to the Company’s financial situation and to the challenges facing management to perform under sustained growth. The ATM segment generates a positive cash flow and the Company’s development efforts to increase the number of ATMs in its network should not generate any significant incremental overhead costs.

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

The Company's strategy for capital risk management was driven by external requirements from one of its lenders. The cash flow of the Company is supported by revolving operating lines of credit in the aggregate amount of $2,000,000 bearing interest at the Company’s bank's prime rate plus 1% per annum, of which $1,764,434 was used as at December 31, 2010. The line of credit is secured by a hypothec on the universality of all property and receivables of the Company in the amount of $1,000,000 and a personal guarantee for $1,000,000 from the majority shareholder of the Company.

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

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

As at December 31, 2010, the Company has not met any of these requirements. Accordingly, as the lender under the line of credit could demand immediate repayment of the bank loans and long-term debts, the entire debt owed to such lender has been reclassified as a current liability. However, as of February 28, 2011, in order to satisfy the requirements of the lender, the Company has arrived at an understanding with the lender to the effect that the Company shall cease to redeem the non-controlling interest preferred shares in its subsidiary Saratoga ATM. In addition, the Company’s principal shareholder and Chief Executive Officer has agreed to inject monthly instalments of $25,000 in Saratoga ATM for the purpose of reimbursing the line of credit owed to the lender, thereby reducing the line of credit available to the Company on a corresponding basis. As of February 28, 2011, two of such instalments have been made. The lender has agreed to renegotiate in April 2011 a new debt structure that would be more suitable to the Company’s operations.

Moreover, there is no guarantee that the amount available under the line of credit will be sufficient to support the future working capital needs of the Company, or that the Company would be able, if required, to gain access to additional working capital.

If the Company decides to pursue new business opportunities, it may require additional capital which may entail the issuance of shares and the sale of debt and equity securities. There can be no assurance that the Company will be able to raise the required capital to pursue such business opportunities. The failure by the Company to raise additional capital could have a material adverse effect on the Company's business, revenues, financial position and operating results. The Company's authorized capital was amended by the creation of an unlimited number of preferred shares, without par value, issuable in series, on such terms as may be determined by the Company's Board of Directors for each series. The primary purpose of creating such preferred shares is to provide management with greater flexibility for potential future financings and other corporate transactions.

The Company is exposed to a concentration of credit risk, with the maximum credit risk exposure for accounts receivable corresponding to the carrying value. As at December 31, 2010, 93.00% of the Company's income was derived from its prepaid products segment, with 28% of the revenues generated by this segment being generated from two major customers: Sobey's Inc. (12%) and Ultramar Corporation (15%). Additionally, the prepaid products segment acquires its inventories from two major suppliers, which account for 60% of the segment's direct costs.

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

The Company's Board of Directors has initiated a process to explore and consider possible strategic alternatives for enhancing shareholder value, including a possible sale of the Corporation. A Special Committee of the Board of Directors has been formed in order to oversee this process and KPMG Corporate Finance Inc. has been retained as the Company's financial advisor to assists and advise in this process. There can be no assurance as to the Company's ability to enter into or consummate a transaction as a result of the exploration and consideration of possible strategic alternatives or as to the Company's ability to enhance shareholder value through this process.

CONTINGENCIES

In 2006, former business associates of Car-Tel's director instituted proceedings in the amount of $1.6 million against Car-Tel for damages and lost profits due to an alleged improper use of proprietary technology used to deliver prepaid PINs for phone products and business contracts. The lawsuit is still pending as at December 31, 2010. In the opinion of management, the likelihood of success of the claim is low and the amount recoverable pursuant to the claim is difficult to assess; however, the Company has submitted a settlement offer to the former business associates and, as a result, a provision of $30,000 has been reflected in the financial statements of the Company.

The Company has entered into an agreement with Bell Distributions pursuant to which Bell Distributions has agreed to forgive an aggregate of $260,000 owing to it by the Company. The forgiveness of such indebtedness has been reflected in the financial statements of the Company. However, under the terms of such Debt Forgiveness Agreement, in the event that the Company breaches or triggers an early termination of the Sales and Distribution Agreement currently in place between the parties and expiring on March 30, 2011, the $260,000 shall once again become due and payable by the Company to Bell Distributions.

INFORMATION COMMUNICATION CONTROLS AND PROCEDURES

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

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Saratoga Electronic Solutions Inc. were prepared by management, which is responsible for the integrity and fairness of the information presented, including the many accounts that must of necessity be based on estimates and judgment. These consolidated financial statements were prepared in accordance with Canadian GAAP. Financial information appearing throughout the MD&A is consistent with these consolidated financial statements.

In discharging our responsibility for the integrity and fairness of the consolidated financial statements and for the accounting systems from which they are derived, we maintain the necessary system of internal controls designed to ensure that transactions are authorized, assets are safeguarded and proper records are maintained.

The Board oversees management’s responsibilities for financial reporting through an Audit Committee, which is composed of independent members. This Committee reviews our consolidated financial statements and recommends them to the Board for approval. Other key responsibilities of the Audit Committee include reviewing our existing internal control procedures and planned revisions to those procedures, and advising the Board members on auditing matters and financial reporting issues.

February **[28]**, 2011

(signed) Georges A. Durst
Chief Executive Officer

(signed) Richard Vallée C.A., ICD.D
Chief Financial Officer