

Consolidated financial statements of
**SARATOGA ELECTRONIC
SOLUTIONS INC.**
March 31, 2011 and 2010

SARATOGA ELECTRONIC SOLUTIONS INC.
Table of Contents

Management’s Responsibility 1

Independent Auditors' Report 2

Consolidated Balance Sheets 3 - 4

Consolidated Statements of Deficit 5

Consolidated Statements of Loss and Comprehensive Loss 6

Consolidated Statements of Cash Flows..... 7

Notes to Consolidated Financial Statements 8 - 37

MANAGEMENT RESPONSIBILITY

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 Canadian generally accepted accounting principles and ensuring that all information in the Management Discussion 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 responsibility 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 primarily of 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, an independent firm of Chartered Accountants, 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, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

August 11, 2011

(Signed) "**GEORGES A. DURST**" Chief Executive Officer
GEORGES A. DURST

(Signed) "**RICHARD VALLÉE**" Chief Financial Officer
RICHARD VALLÉE

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 balance sheets as at March 31, 2011 and 2010, and the consolidated statements of loss and comprehensive loss, deficit, and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, 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.

Auditors' 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 the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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, 2011 and 2010 and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

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. We also draw attention to Note 24 to the consolidated financial statements which describes a subsequent event that is material to the operations of the Company.

Other Matter

The consolidated financial statements of Saratoga Electronic Solutions Inc. for the year ended March 31, 2010 were audited by WSBG SENCRL / LLP of Montreal, Canada, prior to its merger with MNP SENCRL, srl. WSBG expressed an unmodified opinion on those statements on June 7, 2010.

Montréal, Québec

August 11, 2011


Chartered Accountants

¹ CA auditor permit No.16582

SARATOGA ELECTRONIC SOLUTIONS INC.

Consolidated Balance Sheets

As at March 31

	2011	2010
	\$	\$
Assets		
Current		
Cash	-	283,075
Cash in circulation in automated teller machines	1,007,260	1,062,440
Accounts receivable (notes 10 and 22(b))	1,583,849	1,928,734
Inventories (note 5)	1,009,823	889,199
Prepaid expenses	46,858	70,105
Sales tax receivable	226,788	293,331
Loan receivable, private company - current (note 6)	3,168	3,400
Future income taxes - current (note 17)	51,976	335,684
	3,929,722	4,865,968
Loan receivable, private company (note 6)	-	3,190
Property, equipment and assets under capital leases (notes 7, 10 and 12)	2,536,414	2,815,314
Goodwill (note 8)	-	888,636
Intangible assets (note 9)	-	574,583
Future income taxes (note 17)	137,391	365,253
	6,603,527	9,512,944

See accompanying notes to consolidated financial statements.

Approved on Behalf of the Board:

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

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

SARATOGA ELECTRONIC SOLUTIONS INC.

Consolidated Balance Sheets

As at March 31

	2011	2010
	\$	\$
Liabilities		
Current		
Bank indebtedness	606,394	-
Bank loans (note 10)	1,618,160	1,813,580
Accounts payable and accrued liabilities	4,138,163	4,909,025
Income taxes payable	25,384	18,265
Loans payable (note 11)	175,000	400,000
Current portion of long-term debt and obligations under capital leases (note 12)	1,036,209	631,374
Future income taxes (note 17)	52,210	22,301
	7,651,520	7,794,545
Long-term debt and obligations under capital leases (note 12)	981,661	1,636,550
Future income taxes (note 17)	131,412	187,578
	8,764,593	9,618,673
Non-controlling interest (note 13)	1,270,000	1,467,700
Shareholders' deficiency		
Capital stock (note 14)	1,787,423	1,811,973
Contributed surplus (note 16)	182,650	182,650
Deficit	(5,401,139)	(3,568,052)
	(3,431,066)	(1,573,429)
	6,603,527	9,512,944

Going concern (note 2)

Contingencies (note 20)

See accompanying notes to consolidated financial statements.

Approved on Behalf of the Board:

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

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

SARATOGA ELECTRONIC SOLUTIONS INC.

Consolidated Statements of Deficit

For the Years Ended March 31

	2011	2010
	\$	\$
Deficit - beginning of year	(3,568,052)	(2,356,202)
Net loss	(1,833,087)	(1,211,850)
Deficit - end of year	(5,401,139)	(3,568,052)

See accompanying notes to consolidated financial statements.

SARATOGA ELECTRONIC SOLUTIONS INC.
Consolidated Statements of Loss and Comprehensive Loss
For the Years Ended March 31

	2011	2010
	\$	\$
Revenues (note 21)	54,893,864	54,915,149
Direct costs	52,127,076	52,284,178
Gross margin	2,766,788	2,630,971
Operating expenses		
Selling and administrative	1,689,476	2,067,511
Financial	25,107	25,501
Stock-based compensation (note 15)	-	30,862
Research and development, net	-	8,771
	1,714,583	2,132,645
Operating income before undernoted items	1,052,205	498,326
Money remittance development costs (recovery), net	11,063	(22,859)
Interest on loans payable and long-term debt and obligations under capital leases	323,264	337,244
Interest on bank loans	65,846	52,763
Loss (gain) on disposition of property and equipment	(1,551)	14,746
Strategic revision process costs	102,468	-
Impairment of goodwill (note 8)	888,636	-
Amortization of property, equipment and assets under capital leases	417,230	397,473
Amortization of intangible assets	574,583	721,667
	2,381,539	1,501,034
Loss before non-controlling interest and income taxes	(1,329,334)	(1,002,708)
Non-controlling interest	-	113,600
Loss before income taxes	(1,329,334)	(1,116,308)
Provision for income taxes (note 17)	503,753	95,542
Net loss and comprehensive loss	(1,833,087)	(1,211,850)
Loss per share - basic and diluted (note 3)	(0.09902)	(0.06498)
Weighted average number of common shares outstanding for the year	18,511,455	18,648,300

See accompanying notes to consolidated financial statements.

SARATOGA ELECTRONIC SOLUTIONS INC.

Consolidated Statements of Cash Flows

For the Years Ended March 31

	2011	2010
	\$	\$
Cash flows from operating activities		
Net loss	(1,833,087)	(1,211,850)
Adjustments for:		
Stock-based compensation	-	30,862
Amortization of property, equipment and assets under capital leases	417,230	397,473
Amortization of intangible assets	574,583	721,667
Loss (gain) on disposal of property and equipment	(1,551)	14,746
Share of net income allocated to non-controlling interest	-	113,600
Impairment of goodwill	888,636	-
Future income taxes	485,313	92,995
	531,124	159,493
Changes in non-cash working capital items (note 18(a))	(449,692)	453,574
	81,432	613,067
Cash flows used in investing activities		
Proceeds on collection of loan receivable, private company	3,422	3,401
Proceeds on redemption of temporary investment	-	50,000
Acquisition of property and equipment (note 18(c))	(30,599)	(158,538)
Proceeds from disposition of property and equipment	2,500	1,000
	(24,677)	(104,137)
Cash flows used in financing activities		
Net change in bank loans	(195,420)	460,965
Net change in loans payable	(225,000)	200,000
Redemption of preferred shares held by non-controlling interest	(112,500)	(37,500)
Repayment of long-term debt and obligations under capital leases	(522,649)	(597,396)
Proceeds from long-term debt (note 18(c))	163,915	57,319
Redemption of common shares	(24,550)	-
Payments to non-controlling interest	(85,200)	(113,600)
	(1,001,404)	(30,212)
Net increase (decrease) in cash and cash equivalents	(944,649)	478,718
Cash and cash equivalents - beginning of year	1,345,515	866,797
Cash and cash equivalents - end of year (note 18(b))	400,866	1,345,515

See accompanying notes to consolidated financial statements

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Consolidated financial statements

For the Years Ended March 31, 2011 and 2010

1. Statutes of incorporation and nature of activities

Saratoga Electronic Solutions Inc. (the "Company") is incorporated under the Canada Business Corporations Act and is listed on the TSX Venture Exchange Inc. ("Exchange").

The Company operates in two different businesses, 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.

2. Going concern

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

A number of unfavourable conditions and events have left some doubt as to the appropriateness of this assumption. The Company incurred continued operating losses resulting in its non-compliance with certain financial debt covenants required by the financial institution relating to the bank advances and term loans (see Note 10). At March 31, 2011, the lender has not yet waived these violations and, while the lender has not called its bank advances and the term loans, these term loans have been classified as a current liability in the accompanying consolidated balance sheet because the lender can now demand payment. The Company's consolidated working capital and equity are deficient.

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

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

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Consolidated financial statements

For the Years Ended March 31, 2011 and 2010

3. Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") as issued by the Accounting Standards Board in Canada and include the following significant accounting policies:

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries; Saratoga ATM Corporation Inc. and Distributions Car-Tel Inc. All intercompany transactions and balances have been eliminated upon consolidation.

Measurement Uncertainty

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period.

Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary.

Amortization is based on the estimated useful lives of property and equipment and assets under capital leases.

Management has estimated the value of the inventory based upon their assessment of the realizable amount less selling costs.

The amounts disclosed relating to fair values of stock options issued are based on management's estimates of expected stock price volatility, expected lives of the options, expected dividends to be paid by the Company, risk-free interest rates and certain other assumptions.

The calculation of future income tax is based on assumptions, which are subject to uncertainty as to timing and which tax rates are expected to apply when temporary differences reverse. Future income tax recorded is also subject to uncertainty regarding the magnitude of non-capital losses available for carryforward and of the balances in various tax pools as the corporate tax returns have not been prepared as of the date of financial statement preparation.

By their nature, these estimates are subject to measurement uncertainty, and the effect on the consolidated financial statements from changes in such estimates in future years could be material.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Consolidated financial statements

For the Years Ended March 31, 2011 and 2010

3. Summary of significant accounting policies (*cont'd.*)

Revenue recognition

- (i) Revenues from the ATM business 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.
- (ii) Revenues from the sale of cellular prepaid cards, PINs and debit cards are recognized on a gross basis, net of trade discounts and allowances, when the Company 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 Company'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 Company has determined that it is not the primary obligor, such as where the Company earns commissions on products or services sold and does not incur inventory risk, revenue is recognized at the date of sale as the Company's continued obligation effectively ended on that date. Accordingly, these sales are recorded on a net revenue basis.

- (iii) Interest income is recorded on an accrual basis as it is earned.
- (iv) Cash discounts and volume rebates granted to customers in the prepaid product segment are accrued when earned and are recorded as a reduction of sales.

Cash and cash equivalents

It is the Company's policy to disclose bank balances and cash in circulation in automated teller machines under cash and cash equivalents, which includes bank overdrafts that fluctuate frequently from being positive to overdrawn and highly liquid investments that mature within three months or less from the date of acquisition.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a first-in/first-out basis. Previous write-downs to net realizable value are reversed if there is a subsequent increase in the value of the related inventories.

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Consolidated financial statements

For the Years Ended March 31, 2011 and 2010

3. Summary of significant accounting policies (*cont'd.*)

Property, equipment and assets under capital leases

Property and equipment are recorded at cost, and assets under capital leases are recorded at the present value of the future minimum lease payments. Amortization is provided on the various classes of assets principally at rates designed to write-off the cost of the assets over their estimated useful lives as follows:

Declining balance method:

Building	6%
Automated teller machines	20%
Scanners and other equipment	10% to 30%
Furniture and fixtures	20%
Computer equipment and software	30%
Rolling stock	30%

Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. An impairment loss is recognized when the carrying amount of the asset exceeds the sum of the undiscounted cash flows resulting from its use and eventual disposition. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value, which is determined as the replacement value of the asset.

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business segment or unit exceeds the sum of the amounts allocated to the tangible and intangible assets acquired, less liabilities assumed, based on their fair values. When the Company enters into a business combination, the purchase method of accounting is used. Goodwill is assigned, as of the date of the business combination, to reporting units that are expected to benefit from the business combination.

Goodwill is not amortized but instead tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset may be impaired. The Company conducts its impairment test in March of each year. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit, including goodwill, is compared with its fair value. When the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case, the implied fair value of the reporting unit's goodwill, determined in the same manner as the value of goodwill is determined in a business combination, is compared with its carrying amount to measure the amount of the impairment loss, if any.

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Consolidated financial statements

For the Years Ended March 31, 2011 and 2010

3. Summary of significant accounting policies (*cont'd.*)

Intangible assets

Intangible assets are accounted for at cost or at fair value if acquired in a business combination. Intangible assets with finite useful lives are amortized based on their estimated useful life. Intangible assets having a finite useful life are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of the asset exceeds the sum of the undiscounted cash flows resulting from its use and eventual disposition. The impairment loss is measured at the amount by which the carrying amount of the asset exceeds its fair value. The Company does not have any intangible assets having an indefinite life.

Intangible assets having finite useful lives are amortized on a straight-line method as follows:

Contractual customer relationships	Over the term of the contracts which is 3 years expired March 31, 2011
Licenses	Over the term of the agreement which is expired December 31, 2010

Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are accounted for based on the difference between the carrying amounts and tax basis of assets and liabilities and are measured using enacted tax rates and laws in effect as at the date of the financial statements. Changes in these balances are charged to income in the year in which they arise. In addition, the future benefits of income tax assets, including unused tax losses, are, subject to a valuation allowance. Future tax assets are accounted for only if it is believed that it is more likely than not that they will be realized.

Stock-based compensation

The Company uses the fair value based method to account for all stock-based payments. Under this method, compensation cost is charged directly to earnings. Direct awards of stock granted to employees are recorded at fair value on the date of grant and the associated expense is amortized over the vesting period with a corresponding credit to contributed surplus. When stock options are exercised, the proceeds, together with the amount recorded in contributed surplus, are recorded in share capital. The fair value of stock options granted is estimated using the Black-Scholes option pricing model, taking into account amounts that are believed to approximate the volatility of the trading price of the Company's shares, the expected lives of the awards of stock-based compensation, the fair value of the Company's stock and the risk-free interest rate, as determined at the grant date.

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Consolidated financial statements

For the Years Ended March 31, 2011 and 2010

3. Summary of significant accounting policies (*cont'd.*)

Capital disclosures

The Company follows the recommendations of the Canadian Institute of Chartered Accountants ("CICA") handbook Section 1535 - Capital Disclosures that establishes the disclosure requirements about its capital and how it is managed. The purpose is to enable to users of the consolidated financial statements to evaluate the Company's objectives, policies and processes for managing capital. The required disclosures are presented in Note 23.

Loss per share

Basic loss per share is calculated by dividing the net loss by the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated by dividing the applicable net loss by the sum of the weighted average number of common shares outstanding during the year and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the year. The treasury stock method is used to compute the dilutive effect of stock options, warrants and similar instruments.

The computation of diluted loss per share is equal to the basic loss per share due to the anti-dilutive effect of the stock options.

Segments

The Company conducts its business through 2 reportable segments: ATM Machines and prepaid products. These operating segments are established by senior management and are more fully described in Note 20.

Comprehensive income

Comprehensive income (loss) includes all changes in equity of the Company. Comprehensive income (loss) is the total of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) comprises revenues, expenses, gains and losses that, in accordance with Canadian generally accepted accounting principles, require recognition, but are excluded from net income (loss). The Company does not have any items giving rise to other comprehensive income, nor is there any accumulated balance of other comprehensive income. All gain and losses, including those arising from measurement of all financial instruments have been recognized in net income for the period.

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Consolidated financial statements

For the Years Ended March 31, 2011 and 2010

3. Summary of significant accounting policies (*cont'd.*)

Financial instruments

The Company has classified all of its financial assets and liabilities as being either: held for trading, available for sale, loans and receivables, held-to-maturity or other financial liabilities. All financial assets and liabilities are initially measured at fair value and are subsequently measured as follows:

Financial Assets/Liability	Classification	Subsequent Measurement
Cash and cash equivalents	Held for trading	Fair value
Accounts and loans receivable	Loans and receivables	Amortized cost
Sales tax receivable	Loans and receivables	Amortized cost
Bank loans	Other financial liability	Amortized cost
Accounts payable and accrued liabilities	Other financial liability	Amortized cost
Loans payable and long-term debt	Other financial liability	Amortized cost

For financial assets and liabilities which are subsequently measured at fair value, the Company determines the fair values using the fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has three levels as follows: Level 1 - Quoted prices (unadjusted) are available in active markets for identical items, Level 2 - Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly and Level 3 - Unobservable inputs in which there is little or no market data, which require the Company to develop its own assumptions.

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgement, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy.

4. New accounting standards

International financial reporting standards ("IFRS")

In February 2008, Canada's Accounting Standards Board ("AcSB") confirmed that Canadian GAAP, as used by publicly accountable enterprises, would be superseded by IFRS for fiscal years beginning on or after January 1, 2011.

The Company is currently evaluating the impact of the adoption of these new standards on the consolidated financial statements. For the Company, the conversion to IFRS will be required for interim and annual consolidated financial statements for the year ended March 31, 2012. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement, presentation and disclosures.

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Consolidated financial statements

For the Years Ended March 31, 2011 and 2010

5. Inventories

Inventories are comprised of prepaid cards, prepaid phone PINs and prepaid debit cards. Inventories expensed during the year ended March 31, 2011 and included in direct costs amounted to \$48,472,830 (2010 - \$50,107,230). At March 31, 2010, inventory having a cost of \$4,863 was written down to its estimated net realizable value of NIL. There were no write-downs in 2011

6. Loan receivable, private company

	2011	2010
	\$	\$
Loan receivable, non-interest bearing with a 5 year repayment term, secured by a \$26,746 guarantee by a director of the Company, maturing June 30, 2012 and repayable against monthly commissions of approximately of \$285.	3,168	6,590
	3,168	6,590
Less: Current portion	3,168	3,400
	-	3,190

7. Property, equipment and assets under capital leases

	2011		Net
	Cost	Accumulated Amortization	Carrying Amount
	\$	\$	\$
<i>Property and equipment</i>			
Land	585,300	-	585,300
Building	834,700	183,009	651,691
Automated teller machines	1,215,887	862,616	353,271
Scanners and other equipment	1,216,283	865,325	350,958
Furniture and fixtures	120,998	77,159	43,839
Computer equipment and software	101,547	82,572	18,975
Rolling stock	18,219	12,213	6,006
	4,092,934	2,082,894	2,010,040
<i>Assets under capital leases</i>			
Automated teller machines	706,420	180,046	526,374
	4,799,354	2,262,940	2,536,414

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Consolidated financial statements

For the Years Ended March 31, 2011 and 2010

7. Property, equipment and assets under capital leases (cont'd.)

	2010		Net
	Cost	Accumulated Amortization	Carrying Amount
	\$	\$	\$
<i>Property and equipment</i>			
Land	585,300	-	585,300
Building	834,700	141,411	693,289
Automated teller machines	1,209,314	775,925	433,389
Scanners and other equipment	1,202,123	720,747	481,376
Furniture and fixtures	120,998	66,200	54,798
Computer equipment and software	95,081	74,465	20,616
Rolling stock	18,219	9,639	8,580
	4,065,735	1,788,387	2,277,348
<i>Assets under capital leases</i>			
Automated teller machines	597,740	59,774	537,966
	4,663,475	1,848,161	2,815,314

8. Goodwill

	2011	2010
	\$	\$
Balance, beginning of year	888,636	888,636
Impairment loss	(888,636)	-
Balance, end of year	-	888,636

The goodwill relates entirely to the prepaid products business unit of Distribution Car-Tel Inc. Due to deteriorating sales, current and expected future losses and negative cash flows, management concluded during the year that the fair value of the business unit does not exceed its carrying amount. Consequently, the balance of \$888,636 has been charged against income in the current year.

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Consolidated financial statements

For the Years Ended March 31, 2011 and 2010

9. Intangible assets

The aggregate amount of intangible assets subject to amortization is comprised as follows:

	2011		
	Cost	Accumulated Amortization	Net Carrying Amount
	\$	\$	\$
Contractual customer relationships	1,680,000	1,680,000	-
Licenses	64,583	64,583	-
	1,744,583	1,744,583	-

	2010		
	Cost	Accumulated Amortization	Net Carrying Amount
	\$	\$	\$
Contractual customer relationships	1,680,000	1,120,000	560,000
Licenses	64,583	50,000	14,583
	1,744,583	1,170,000	574,583

10. Bank loans

The Company 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 \$1,618,160 was used as at March 31, 2011 (2010 - \$1,813,580). 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, 2011, these requirements have not been met. Details of the requirements are described in Note 23.

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Consolidated financial statements

For the Years Ended March 31, 2011 and 2010

11. Loans payable

	2011	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 (2010 balance was due June 5, 2010). 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.	75,000	300,000
b) Loan payable to an individual bearing interest at 15% per annum, due on August 2, 2011. The loan has been secured by a personal guarantee from the President of a subsidiary of the Company.	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 repaid during the year.	-	100,000
	<u>175,000</u>	<u>400,000</u>

12. Long-term debt and obligations under capital leases

	2011	2010
	\$	\$
a) Loan bearing interest at prime plus 1%, repayable in monthly capital instalments of \$4,167 plus interest. This loan was fully repaid during the year.	-	20,833
b) 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.	89,392	56,363
c) 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, secured by the underlying assets having a net carrying amount of \$311,542.	396,212	504,782

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Consolidated financial statements

For the Years Ended March 31, 2011 and 2010

12. Long-term debt and obligations under capital leases (cont'd.)

	2011	2010
	\$	\$
d) 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 repaid during the year.	-	1,743
e) Loan payable to a company with a common director, non-interest bearing; unsecured with no terms of repayment.	36,488	36,488
f) 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⁾	392,362	640,037
g) Loan payable to a company under common control, non-interest bearing; unsecured with no terms of repayment.	25,000	-
h) Loan payable to the majority shareholder of the Company, non-interest bearing; unsecured with no terms of repayment.	58,462	-
i) 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⁾	446,098	446,098
j) 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, secured by the underlying assets having a net carrying amount of \$526,374.	573,856	561,580
	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.

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Consolidated financial statements

For the Years Ended March 31, 2011 and 2010

12. Long-term debt and obligations under capital leases (cont'd.)

Repayments of long-term debt and obligations under capital leases based on contracted payment amounts for the next four years are as follows:

	Obligations Under Capital Lease	Other Debts	Total
	\$	\$	
2011	193,219	842,990	1,036,209
2012	193,219	478,305	671,524
2013	193,219	101,799	295,018
2014	140,918	20,920	161,838
Total minimum payments	720,575	1,444,014	2,164,589
Less: amount representing interest	146,719	-	146,719
	573,856	1,444,014	2,017,870

13. Non-controlling interest

The non-controlling interest consists of 1,270,000 Class 'D' preferred shares (2010 – 1,382,500) 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:

	2011	2010
	\$	\$
Balance beginning of year	1,467,700	1,505,200
Preferred shares repurchased during the year ⁽¹⁾	(112,500)	(37,500)
Share of net income allocated to non-controlling interest	-	113,600
Payments to non-controlling interest	(85,200)	(113,600)
Balance, end of year	1,270,000	1,467,700

⁽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 (2010 - \$37,500). 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 repurchase, the Company is in breach of one of the requirements under its' lending agreement as described in Note 23.

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Consolidated financial statements

For the Years Ended March 31, 2011 and 2010

14. Capital stock

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.

	Number #	Amount \$
Common shares		
BALANCE, MARCH 31, 2009	18,648,300	1,811,973
No change during the year	-	-
BALANCE, MARCH 31, 2010	18,648,300	1,811,973
Treasury shares ⁽¹⁾	(187,000)	(24,550)
BALANCE, MARCH 31, 2011	18,461,300	1,787,423

⁽¹⁾ **Treasury shares**

BALANCE, MARCH 31, 2009	-	-
No change during the year	-	-
BALANCE, MARCH 31, 2010	-	-
Shares purchased for cancellation	187,000	24,550
BALANCE, MARCH 31, 2011	187,000	24,550

During the year, the Company repurchased for cancellation 187,000 of its common shares for a total consideration of \$24,550 under a Normal Course Issuer Bid. At March 31, 2011, these common shares are held as treasury shares and the capital stock was reduced by their repurchase price. These common shares were then cancelled on May 27, 2011.

There are no preferred shares issued and outstanding as at March 31, 2011 and 2010.

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Consolidated financial statements

For the Years Ended March 31, 2011 and 2010

15. Stock-based compensation

The Company maintains an incentive stock option plan (the "Stock Option Plan") which provides that the Board of Directors of the Company may, from time to time at its discretion, grant to directors, officers, employees and consultants of the Company, non-transferable options to purchase common shares, in such numbers, for such terms and at such exercise prices as may be determined by the Board of Directors.

The Plan provides that the maximum number of common shares in the capital of the Company that may be reserved for issuance shall be equal to 855,000 shares. The option's maximum term is five years from grant date and unexercised options are cancelled after termination of employment or directorship. The option exercise price and vesting period is established by the Board of Directors, and the option price may not be lower than the discounted market price at the time of grant. The options granted vest according to a graded schedule of 33.3% every six months commencing on the grant date.

The Company has accounted for options granted using the fair value method. There were no options granted in 2011 or 2010.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect fair values, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

Total stock option compensation costs for the year ended March 31, 2011 relating to options granted in prior years' amounted to NIL (2009 - \$30,862).

A summary of the changes in the Company's common share purchase options is presented below:

	2011		2010	
	Number of Options #	Weighted Average Exercise Price \$	Number of Options #	Weighted Average Exercise Price \$
Balance - beginning of year	280,000	0.26	450,000	0.26
Granted	-	-	-	-
Cancelled	-	-	(170,000)	0.26
Balance - end of year	280,000	0.26	280,000	0.26
Total exercisable - end of year	280,000	0.26	280,000	0.26

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Consolidated financial statements

For the Years Ended March 31, 2011 and 2010

15. Stock-based compensation (*cont'd.*)

During the year ended March 31, 2011, the Company cancelled NIL (2010 – 170,000) fully vested stock options.

Common share purchase options outstanding and granted to officers, directors and employees as at March 31, 2011 are summarized as follows:

Number of Options Outstanding	Weighted Average Exercise Price	Remaining Contractual Life	Expiry Date	Number of Options Exercisable
190,000	0.26	6 months	09-2011	190,000
90,000	0.27	20 months	12-2012	90,000
280,000				280,000

16. Contributed surplus

Net change in contributed surplus is as follows:

	2011	2010
	\$	\$
Balance, beginning of year	182,650	151,788
Stock-based compensation (note 15)	-	30,862
Balance, end of year	182,650	182,650

17. Income taxes

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

	2011	2010
	\$	\$
Current income taxes	18,440	2,547
Future income taxes	485,313	92,995
	503,753	95,542

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Consolidated financial statements

For the Years Ended March 31, 2011 and 2010

17. Income taxes (cont'd.)

(b) *Reconciliation of income taxes*

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

	2011		2010	
	\$	%	\$	%
Income tax recovery at the combined basic				
Federal and Provincial tax rates	(401,388)	(30)	(339,125)	(30)
Non-deductible stock options	-	-	9,228	1
Non-deductible items	15,031	2	35,278	3
Impairment of Goodwill	262,325	19	-	-
Change in future income taxes resulting from				
changes in tax rates	30,339	2	(14,584)	(1)
Future tax impact on current temporary				
differences	60,765	4	111,342	10
Change in tax estimates	(18,720)	(1)	-	-
Change in valuation allowance	546,349	40	308,403	27
Other, net	9,052	1	(15,000)	(2)
Effective tax expense	503,753	37	95,542	8

(c) The tax effects of significant items comprising the Company's net future income tax assets and liabilities are as follows:

	2011	2010
	\$	\$
Loss carry forwards and other deductible amounts	942,802	1,089,686
Property and equipment and intangible assets	(78,484)	(287,314)
Capital lease obligation	154,367	155,277
Valuation allowance	(1,012,940)	(466,591)
	5,745	491,058

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Consolidated financial statements

For the Years Ended March 31, 2011 and 2010

17. Income taxes (cont'd.)

(d) *Tax loss carry forwards:*

The Company 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
	\$	\$
2014	74,000	74,000
2015	27,000	27,000
2026	905,000	897,000
2027	165,000	224,000
2028	1,215,000	1,207,000
2029	454,000	443,000
2030	577,000	571,000
2031	78,000	74,000
	3,495,000	3,517,000

(e) *Other deductible amounts*

The Company has available approximately \$123,000 (Quebec \$127,000) of cumulative eligible capital which may be deducted indefinitely against taxable income.

18. Statement of cash flows

(a) *Changes in non-cash working capital items:*

	2011	2010
	\$	\$
Accounts receivable	344,885	475,303
Investment tax credits receivable	-	16,825
Inventories	(120,624)	(529,895)
Prepaid expenses	23,247	(40,648)
Sales tax receivable	66,543	(67,004)
Accounts payable and accrued liabilities	(770,862)	644,132
Income taxes payable	7,119	(45,139)
	(449,692)	453,574

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Consolidated financial statements

For the Years Ended March 31, 2011 and 2010

18. Statement of cash flows (cont'd.)

- (b) *Cash and cash equivalents on the statement of cash flows comprise the following balance sheet amounts:*

	2011	2010
	\$	\$
Cash (bank indebtedness) - operations	(606,394)	283,075
Cash - in circulation in automated teller machines	1,007,260	1,062,440
	400,866	1,345,515

- (c) *Items not affecting cash:*

	2011	2010
	\$	\$
Capital assets acquired by way of a capital lease	108,680	597,740

- (d) *Interest and income taxes:*

	2011	2010
	\$	\$
Interest paid	366,877	360,795
Income taxes paid	17,347	35,404

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Consolidated financial statements

For the Years Ended March 31, 2011 and 2010

19. Related party transactions

During the year, the Company had transactions and balances with related parties. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The balances are subject to normal terms of trade. The related party transactions and balances are summarized as follows:

	2011	2010
	\$	\$
(i) <i>Company under common control:</i>		
• Interest expense included in interest on loans payable and long-term debt	85,232	107,050
• Accounts payable and accrued liabilities	5,943	7,572
(ii) <i>Companies with common directors</i> ⁽¹⁾		
• Accounts receivable	6,869	1,523
• Accounts payable and accrued liabilities	4,788	6,676
• Interest expense included in interest on loans payable and long-term debt	53,532	146,866
• Rental income	19,451	18,449
(iii) <i>Directors</i>		
• Accounts payable and accrued liabilities	645	1,500
• Professional fees included in selling and administrative	72,694	50,890
• Interest expense included in interest on loans payable and long-term debt	3,000	4,500
• Directors fees	18,700	18,000

⁽¹⁾ The director tendered his resignation as director of the Company effective March 12, 2010.

20. Contingencies

In 2006, former business associates of a director of a subsidiary company instituted proceedings in the amount of \$1.6 million against the subsidiary for damages and lost profits due to an alleged improper use of proprietary technology. The lawsuit is still pending as at August 10, 2011 and a counter claim in excess of \$1.0 million has been taken against the plaintiffs. In the opinion of management, the likelihood of success of the claim is unlikely and the amount recoverable pursuant to the claim, if any, is difficult to assess. Notwithstanding, the Company has submitted a settlement offer to the former business associates, and accordingly a provision of \$30,000 has been reflected in the consolidated financial statements of the Company.

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Consolidated financial statements

For the Years Ended March 31, 2011 and 2010

21. 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 Company as described in Note 3.

The Company's significant business segments include:

- *ATM network segment:* Engagement ATM transactions which include a fee or percentage base costs per transaction and a fixed base surcharge per transaction for money passing through the ATM network.
- *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 Company has determined that it is not the primary obligor, and included in revenues below, account for \$484,007 for the year ended March 31, 2011 (2010 - \$333,246).

All of the Company's reportable segments are conducted solely in Canada. Information by reportable segment for the years ended March 31, 2011 and 2010 is as follows:

	ATM Machines	Prepaid Products	Corporate Items and Eliminations	2011 Consolidated Totals
	\$	\$	\$	\$
Revenues	4,046,954	50,788,899	58,011	54,893,864
Direct costs	3,409,412	48,717,664	-	52,127,076
Gross margin	637,542	2,071,235	58,011	2,766,788
Operating expenses				
Selling and administrative	196,715	1,100,552	392,209	1,689,476
Financial	10,587	13,378	1,142	25,107
Stock-based compensation	-	-	-	-
Research and development, net	-	-	-	-
	207,302	1,113,930	393,351	1,714,583

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Consolidated financial statements

For the Years Ended March 31, 2011 and 2010

21. Segmented information (cont'd.)

	ATM Machines	Prepaid Products	Corporate Items and Eliminations	2011 Consolidated Totals
	\$	\$	\$	\$
Operating income (loss) before undernoted items	430,240	957,305	(335,340)	1,052,205
Amortization of property and equipment	216,326	156,681	44,223	417,230
Amortization of intangible assets	-	574,583	-	574,583
Money remittance development costs, net	-	-	11,063	11,063
Interest on loans payable and long- term debt	94,632	114,101	114,531	323,264
Interest on bank loans	65,846	-	-	65,846
Loss (gain) on disposition of property and equipment	(1,551)	-	-	(1,551)
Strategic review process costs	-	-	102,468	102,468
Impairment of goodwill	-	888,636	-	888,636
Non-controlling interest	-	-	-	-
	375,253	1,734,001	272,285	2,381,539
Income (loss) before income taxes	54,987	(776,696)	(607,625)	(1,329,334)
Additions to property, equipment and assets under capital leases	131,425	7,854	-	139,279
Goodwill	-	-	-	-
Total assets	2,180,436	3,168,870	1,254,221	6,603,527
	\$	\$	\$	\$
Revenues	2,313,794	52,545,642	55,713	54,915,149
Direct costs	1,902,613	50,381,565	-	52,284,178
Gross margin	411,181	2,164,077	55,713	2,630,971

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Consolidated financial statements

For the Years Ended March 31, 2011 and 2010

21. Segmented information (cont'd.)

	ATM Machines	Prepaid Products	Corporate Items and Eliminations	2010 Consolidated Totals
	\$	\$	\$	\$
Operating expenses:				
Selling and administrative	175,296	1,286,289	605,926	2,067,511
Financial	11,368	11,581	2,552	25,501
Stock-based compensation	-	-	30,862	30,862
Research and development, net	-	-	8,771	8,771
	186,664	1,297,870	648,111	2,132,645
Operating income (loss) before undernoted items	224,517	866,207	(592,398)	498,326
Amortization of property and equipment	201,067	192,933	3,473	397,473
Amortization of intangible assets	-	721,667	-	721,667
Money remittance development costs, net	-	-	(22,859)	(22,859)
Interest on loans payable and long- term debt	38,118	148,131	150,995	337,244
Interest on bank loans	52,763	-	-	52,763
Loss on disposition of property and equipment	14,746	-	-	14,746
Non-controlling interest	-	-	113,600	113,600
	306,694	1,062,731	245,209	1,614,634
Income (loss) before income taxes	(82,177)	(196,524)	(837,607)	(1,116,308)
Additions to property, equipment and assets under capital leases	755,628	650	-	756,278
Goodwill	-	888,636	-	888,636
Total assets	2,343,861	4,929,849	2,239,234	9,512,944

22. Financial instruments

This section provides disclosures relating to the nature and extent of the Company's exposure to risks arising from financial instruments, including fair values, credit risks, liquidity risk, foreign currency risk and interest rate risk as well as how the Company manages those risks.

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Consolidated financial statements

For the Years Ended March 31, 2011 and 2010

22. Financial instruments (cont'd.)

(a) *Financial instruments - carrying values and fair value:*

The fair values of financial assets and liabilities, together with the carrying amounts included in the consolidated balance sheet, are as follows:

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	\$	\$	\$	\$
Financial assets:				
Held for trading:				
Cash and cash equivalents	400,866	400,866	1,345,515	1,345,515
Loans and receivables:				
Accounts receivable	1,583,849	1,583,849	1,928,734	1,928,734
Loans receivable, private companies	3,168	3,168	6,590	6,590
Sales tax receivable	226,788	226,788	293,331	293,331
Financial liabilities:				
Other financial liabilities:				
Bank loans	1,618,160	1,618,160	1,813,580	1,813,580
Accounts payable and accrued liabilities	4,138,163	4,138,163	4,909,025	4,909,025
Loans payable	175,000	175,000	400,000	400,000
Long-term debt	2,017,870	2,017,870	2,267,924	2,267,924

The determination of the fair value of cash and cash equivalents was determined using level 1 of the fair value hierarchy.

The Company has determined that the fair value of its short-term financial assets and liabilities not classified as held for trading approximates their respective carrying amounts as at the balance sheet dates because of the short-term maturity of those instruments. Long-term debt and obligations under capital leases bears interest at varying market rates and the credit and market premiums therein are indicative of current rates, therefore the fair market value approximates the carrying value.

(b) *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 Company's trade receivable. The Company may also have credit risk relating to cash and cash equivalents. The carrying amount of financial assets, as disclosed above, represents the Company's maximum exposure.

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Consolidated financial statements

For the Years Ended March 31, 2011 and 2010

22. Financial instruments (cont'd.)

The Company mitigates customer related credit risk through diversification of revenue sources resulting from an enlargement of its client base, ensuring a considerable portion of the Company's revenue is earned from national retail operators, and conducting credit assessments for all new merchants.

The Company's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. The Company 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 Company has not experienced significant credit losses in the past.

The aging of accounts receivable at the reporting date was as follows:

	2011		2010	
	Gross	Allowance	Gross	Allowance
	\$	\$	\$	\$
Current	1,566,372	-	1,918,897	-
Past due	18,477	1,000	13,634	3,797
	1,584,849	1,000	1,932,531	3,797

The Company is exposed to concentration of credit risk as at March 31, 2011 as approximately 93% (2010 – 96%) of the Company'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 29% (2010 – 26%) of the segment's revenues and 31% (2010 – 39%) of the segment's receivables. The maximum credit risk exposure for accounts receivable corresponds to the carrying value.

	Revenues		Accounts Receivable	
	2011	2010	2011	2010
	%	%	%	%

Concentration of main customers of the prepaid segment:

Sobey's Inc.	13	11	19	26
Ultramar Corporation	16	15	12	13
	29	26	31	39

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Consolidated financial statements

For the Years Ended March 31, 2011 and 2010

22. Financial instruments (*cont'd.*)

The prepaid products business unit acquires its inventories from two major suppliers, which account for approximately 60% of the segment's direct costs.

(c) *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company 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 Company'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.

As at March 31, 2011, the Company's financial liabilities include accounts payable and accrued liabilities, current portion of loans payable and long-term debt, whereby their contractual maturities are less than one year.

(d) *Foreign currency risk*

All of the Company's cash flows and financial assets and liabilities are denominated in Canadian dollars, which is the Company's functional and reporting currency.

(e) *Interest rate risk*

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

The Company is exposed to interest rate risk on its bank loans and long-term debt, bearing variable rates of interest. The Company'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 Company. As at March 31, 2011, should interest rates vary by 100 basis points and all the other parameters remain the same, the Company's net loss for the year then ended would have increased or decreased by approximately \$17,100.

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Consolidated financial statements

For the Years Ended March 31, 2011 and 2010

22. Financial instruments (cont'd.)

(f) Economic conditions

The Company is exposed to economic conditions risks. The prepaid products and the ATM business segments are 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 products, and could have a material adverse effect on the Company's business, revenues, financial position and operating results.

23. Capital risk management

The Company's primary objectives when managing capital are:

- To safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for its shareholders; and to ensure that the Company has access to sufficient funds for acquisition or development activities.

The capital of the Company is composed of cash and cash equivalents, bank loans, current portion of long-term debt, and shareholders' equity.

The Company sets the amount of capital in proportion to risk. The Company 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 Company 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.

The Company's strategy for capital risk management was driven by external 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 to 1
- not to redeem any preferred shares without obtaining the consent of the lender

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Consolidated financial statements

For the Years Ended March 31, 2011 and 2010

23. Capital risk management (*cont'd.*)

As at March 31, 2011, the Company has not met any of these requirements. However, as of February 28, 2011, in order to satisfy the requirements of the lender, the Company had a verbal agreement 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 March 31, 2011, three of such instalments have been made. The lender has agreed to renegotiate in the first quarter 2012 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.

The Company has also created a new class of preferred shares as described in Note 14. The primary purpose of creating these preferred shares is to provide management with greater flexibility respecting potential future financings and other corporate transactions.

24. Subsequent event

On July 29, 2011, the Corporation announced that it has entered into an agreement to sell its subsidiary Distributions Car-Tel Inc. ("Car-Tel") to a member of the management of Car-Tel for a purchase price of approximately \$1.36 million, to be paid through a combination of cash and the assumption of certain specified liabilities. This transaction results from the previously announced strategic review undertaken by the Company.

Closing of this transaction is subject to the negotiation and execution of definitive transaction documents, as well as the receipt of all requisite regulatory approvals, and is expected to occur in the Company's second quarter.

As the consolidated financial statements have not been adjusted for this subsequent event and due to the pervasive effect of this transaction on the future activities of the Company, the following pro-forma statement incorporates the effect of the event as if it had occurred at March 31, 2011.

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Consolidated financial statements

For the Years Ended March 31, 2011 and 2010

	March 31, 2011 (audited)
	\$ (except for share information)
<i>Effect on Balance sheet:</i>	
Assets	
Current	
Cash	367,972
Cash – in circulation in automated teller machines	1,007,260
Accounts receivable	44,065
Prepaid expenses and sundry receivables	15,031
Sales taxes receivable	33,469
Current portion of loans receivable-private companies	3,168
Future income taxes	51,976
	1,522,941
Property and equipment	2,081,768
Future income taxes	137,391
	3,742,100
Liabilities	
Current	
Bank loans	1,618,160
Accounts payable and accrued liabilities	510,586
Income taxes payable	25,384
Loan payable and long term debt	335,994
Future income tax	52,210
	2,542,334
Long-term debt	447,205
Future income tax	131,412
	3,120,951
Non-controlling interest	1,270,000
Shareholders' equity	
Capital stock	1,787,423
Contributed surplus	182,650
Deficit	(2,618,924)
	(648,851)
	3,742,100

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Consolidated financial statements

For the Years Ended March 31, 2011 and 2010

<i>Effect on Statement of Deficit:</i>	
Deficit – beginning of period	(3,568,052)
Net income	949,128
Deficit - end of period	(2,618,924)
<i>Effect on Statement of income and comprehensive income:</i>	
Revenues	54,893,864
Direct costs	52,127,076
Gross margin	2,766,788
Operating expenses	1,714,583
Undernoted items	2,381,539
Loss before income taxes	(1,329,334)
Income taxes	503,753
Gain on sale of subsidiary, Car-Tel	2,782,215
Net income	949,128
Income per share (basic)	0.05127
Income per share (diluted)	0.05051
Weighted average number of outstanding common shares (basic)	18,511,455
Weighted average number of outstanding common shares (diluted)	18,791,455

As a result of losses carry forward from prior years, there will be no corporate taxes paid on the gain from this transaction.

25. Comparative figures

Certain figures in the 2010 consolidated financial statements have been reclassified to conform to the basis of presentation used in 2011.