

Condensed Consolidated Interim
Financial Statements of
**SARATOGA ELECTRONIC
SOLUTIONS INC.**
Periods Ended June 30, 2013 and 2012

SARATOGA ELECTRONIC SOLUTIONS INC.

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the Shareholders of Saratoga Electronic Solutions Inc.:

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

In discharging its responsibilities for the integrity and fairness of the condensed consolidated interim 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 condensed consolidated interim financial statements.

The Board of Directors ("Board") and Audit Committee ("Committee") are composed of some Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Committee has the responsibility of meeting with management to discuss the internal controls over the financial reporting process and financial reporting issues. The Committee reports to the Board of directors for its consideration in approving the condensed consolidated interim report for issuance to shareholders.

Management recognizes its responsibility for conducting the company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

(Signed) "GEORGES A. DURST" Director

(Signed) "DONALD W. SEAL" Director

NOTICE TO READER

The accompanying condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of condensed consolidated interim financial statements by an auditor.

SARATOGA ELECTRONIC SOLUTIONS INC.
Condensed Consolidated Interim Statements of Financial Position
(Unaudited and Unreviewed by company's Independent Auditors)

As at	Note	June 30, 2013	March 31, 2013
		\$	\$
ASSETS			
Current assets:			
Cash		75,412	144,028
Trade and other receivables	5, 14 (a)	10,005	8,347
Trade receivables from related parties	13	43,014	36,533
Prepaid expenses		20,450	14,496
Loan receivable from a private company		50,000	50,000
		198,881	253,404
Non-current assets			
Property, plant and equipment	6	1,159,845	1,168,804
Total assets		1,358,726	1,422,208

The accompanying notes form an integral part of the condensed consolidated interim financial statements.

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on August 28, 2013:

(Signed) "GEORGES A. DURST" Director

(Signed) "DONALD W. SEAL" Director

SARATOGA ELECTRONIC SOLUTIONS INC.
Condensed Consolidated Interim Statements of Financial Position
(Unaudited and Unreviewed by company's Independent Auditors)

As at	Note	June 30, 2013	March 31, 2013
		\$	\$
LIABILITIES			
Current liabilities			
Trade and other payables	7	87,261	86,506
Trade payables to related parties	13	5,565	5,864
Income taxes payable		43,166	43,166
		135,992	135,536
Shareholders' equity			
Common shares	10	1,793,803	1,793,803
Contributed surplus		182,650	182,650
Deficit		(1,898,719)	(1,834,781)
Equity (deficiency) attributable to shareholders'		77,734	141,672
Non-controlling interest	8	1,145,000	1,145,000
Total equity		1,222,734	1,286,672
Total equity and liabilities		1,358,726	1,422,208

The accompanying notes form an integral part of the condensed consolidated interim financial statements.

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on August 28, 2013:

(Signed) "GEORGES A. DURST" Director

(Signed) "DONALD W. SEAL" Director

SARATOGA ELECTRONIC SOLUTIONS INC.
Condensed Consolidated Interim Statements of Comprehensive Income
(Unaudited and Unreviewed by company's Independent Auditors)

For the Three-month Periods Ended June 30, 2013 and 2012

	Note	June 30, 2013	June 30, 2012
		\$	\$
Revenues		4,767	14,277
Expenses			
Selling and administrative	9	57,676	113,076
Depreciation of property, plant and equipment	6	8,959	9,601
Money remittance, net		630	(3,982)
		67,265	118,695
Loss before net finance costs and income taxes		(62,498)	(104,418)
Finance expense		1,440	2,062
Loss before income taxes		(63,938)	(106,480)
Income tax expense (recovery):			
Current taxes		-	-
Deferred taxes		-	-
Total comprehensive loss for the period		(63,938)	(106,480)
Loss per share for the period (Note 12):			
Basic and Diluted		(0.00346)	(0.00577)
Weighted average number of common shares (Note 12)			
Basic		18,461,300	18,461,300
Diluted		18,461,300	18,551,300

The accompanying notes form an integral part of the condensed consolidated interim financial statements.

SARATOGA ELECTRONIC SOLUTIONS INC.

Consolidated Statements of Changes in Equity

(Unaudited and Unreviewed by company's Independent Auditors)

For the Three-month Periods Ended June 30, 2013 and 2012

	Share capital					
	Number	Amount	Contributed surplus	Deficit	Non-controlling interest	Total equity
	#	\$	\$	\$	\$	\$
Balance at March 31, 2012	18,461,300	1,793,803	182,650	(1,979,735)	1,270,000	1,266,718
Net loss and comprehensive income	-	-	-	(106,480)	-	(106,480)
Balance at June 30, 2012	18,461,300	1,793,803	182,650	(2,086,215)	1,270,000	1,160,238
Balance at March 31, 2013	18,461,300	1,793,803	182,650	(1,834,781)	1,145,000	1,286,672
Net loss and comprehensive income	-	-	-	(63,938)	-	(63,938)
Balance at June 30, 2013	18,461,300	1,793,803	182,650	(1,898,719)	1,145,000	1,222,734

The accompanying notes from an integral part of the condensed consolidated interim financial statements.

SARATOGA ELECTRONIC SOLUTIONS INC.
Condensed Consolidated Interim Statements of Cash Flows
(Unaudited and Unreviewed by company's Independent Auditors)

For the Three-month Periods Ended June 30, 2013 and 2012

	Note	June 30, 2013	June 30, 2012
		\$	\$
Cash flows (used in) from operating activities			
Loss from operations		(63,938)	(106,480)
Items not involving cash:			
Depreciation of property, plant and equipment	6	8,959	9,601
		(54,979)	(96,879)
Changes in non-cash working capital			
Trade and other receivables		(1,658)	54,920
Trade receivables from related parties		(6,481)	(5,132)
Funds held in trust		-	51,767
Prepaid expenses		(5,954)	5,817
Trade and other payables		755	(48,828)
Trade payables to related parties		(299)	(3)
Cash flows used in operating activities of operations		(68,616)	(38,338)
Cash flows from (used in) investing activities			
Cash flows from (used in) investing activities of operations		-	-
Cash flows used in financing activities			
Decrease in short-term loans		-	(590,000)
Increase (decrease) in bank indebtedness		-	(40,955)
Cash flows used in financing activities of operations		-	(630,955)
Net decrease in cash		(68,616)	(669,293)
Cash - beginning of year		144,028	887,980
Cash - end of period		75,412	218,687
Supplemental information			
Interest paid in cash		998	912
Income taxes paid (recovered) in cash		-	-

The accompanying notes form an integral part of the condensed consolidated interim financial statements.

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Condensed Consolidated Interim Financial Statements

For the Three-month Periods Ended June 30, 2013 and 2012

1. Reporting entity

Saratoga Electronic Solutions Inc. (the “Company”) is a publicly traded corporation and is incorporated and domiciled in Canada. The condensed consolidated interim financial statements of the Company as at and for the three-month periods ended June 30, 2013 and June 30, 2012 comprise the Company and its subsidiary 9261-5277 Québec Inc. (together referred to as the “Group” and individually as “Group entities”). The Company, through its subsidiary 9261-5277 Québec Inc., is in the business of office space leasing, which the Company derives rental income.

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

2. Going concern

These condensed consolidated interim financial statements have been prepared on the going concern basis, which presumes that the Group will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

The Group has incurred substantial recurring losses to date and has an accumulated deficit of \$1,898,719 at June 30, 2013. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group’s ability to continue as a going concern.

The Group’s ability to continue as a going concern is dependent upon its ability to raise additional capital find new investing opportunities. There is no assurance that the Group will be able to materialize its plan.

The condensed consolidated interim financial statements have been prepared on a going concern basis and do not include any adjustments to the amounts and classifications of the assets and liabilities that might be necessary should the Group be unable to achieve its plan to find new investing opportunities given that the majority shareholder of the Company has attested to provide all funding necessary for the Company to continue as a going concern. If the going concern assumption were not appropriate for these condensed consolidated interim financial statements, then adjustments would be necessary to the carrying value of assets and liabilities, the reported expenses and the consolidated statements of financial position classifications used. The impact on the condensed consolidated interim financial statements could be material.

SARATOGA ELECTRONIC SOLUTIONS INC.
Notes to Condensed Consolidated Interim Financial Statements
For the Three-month Periods Ended June 30, 2013 and 2012

3. Basis of presentation

Statement of compliance

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

Basis of measurement

These condensed consolidated interim financial statements have been prepared on the historical cost basis.

These condensed consolidated interim financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statements, including IAS34.

These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the annual financial statements of the company and the notes thereto. These condensed consolidated interim financial statements have not been subject of a review or an audit by the company’s auditors and have been approved by the Board of directors on August 28, 2013.

Functional and presentation currency

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

Critical accounting estimates, judgements and assumptions

These condensed consolidated interim financial statements do not include all the information required for full annual financial statements and should be read in conjunction with the annual financial statements of the Group and the notes thereto. These condensed consolidated interim financial statements have not been subject of a review or an audit by the Group’s auditors and have been approved by the Board of Directors on August 28, 2013.

The condensed consolidated interim financial statements have been prepared following the same accounting policies and exemptions used in the annual consolidated financial statements for the years ended March 31, 2013 and March 31, 2012.

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Condensed Consolidated Interim Financial Statements

For the Three-month Periods Ended June 30, 2013 and 2012

4. Significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, unless otherwise indicated.

The accounting policies have been applied consistently by Group entities.

New standards and interpretations not yet adopted

The following standards which are relevant but have not been adopted within these consolidated financial statements and may or may not have an effect on the Group's future consolidated financial statements:

- IAS 1 – Presentation of financial statements
- IFRS 9: Financial Instruments
- IFRS 10: Consolidated Financial Statements
- IFRS 12: Disclosure of Interest in Other Entities
- IFRS 13: Fair Value Measurement

More information on the future accounting changes is available in note 4 of the consolidated financial statements at March 31, 2013. The Group has not yet assessed the impact of these standards on its consolidated financial statements or determined whether they will adopt the standards early.

5. Trade and other receivables

	June 30, 2013	March 31, 2013
	\$	\$
Trade receivables	5,290	2,360
Sales taxes receivable	4,715	5,987
Total trade and other receivables	10,005	8,347
	June 30, 2013	March 31, 2013
Aging analysis	\$	\$
Current	13,969	306
30 – 90 days	(3,964)	101
Over 90 days	-	7,940
Total trade and other receivables	10,005	8,347

SARATOGA ELECTRONIC SOLUTIONS INC.
Notes to Condensed Consolidated Interim Financial Statements
For the Three-month Periods Ended June 30, 2013 and 2012

No amounts are impaired at June 30, 2013 and March 31, 2013.

6. Property, plant and equipment

	Land	Building	Furniture and computer equipment	Total
	\$	\$	\$	\$
Cost				
At March 31, 2012	585,300	834,700	27,699	1,447,699
Additions	-	-	-	-
At June 30, 2012	585,300	834,700	27,699	1,447,699
Accumulated Depreciation				
At March 31, 2012	-	222,111	18,378	240,489
Depreciation expense	-	9,189	412	9,601
At June 30, 2012	-	231,300	18,790	250,090
Net book value				
At March 31, 2012	585,300	612,589	9,321	1,207,210
At June 30, 2012	585,300	603,400	8,909	1,197,609
Cost				
At March 31, 2013	585,300	834,700	27,699	1,447,699
Additions	-	-	-	-
At June 30, 2013	585,300	834,700	27,699	1,447,699
Accumulated Depreciation				
At March 31, 2013	-	258,866	20,029	278,895
Depreciation expense	-	8,638	321	8,959
At June 30, 2013	-	267,504	20,350	287,854
Net book value				
At March 31, 2013	585,300	575,834	7,670	1,168,804
At June 30, 2013	585,300	567,196	7,349	1,159,845

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Condensed Consolidated Interim Financial Statements

For the Three-month Periods Ended June 30, 2013 and 2012

7. Trade and other payables

	June 30, 2013	March 31, 2013
	\$	\$
Total trade and other payables	87,261	86,506

8. Non-controlling interest

The non-controlling interest consists of 1,145,000 Class 'D' preferred shares (2012 – 1,270,000) of Québec Inc., non-voting, non-participating, non-convertible, non-cumulative annual dividend of 8%, and redeemable at \$1 per share.

9. Administrative

Administrative expenses relating to operations are comprised of:

	Three-month period ended June 30, 2013	Three-month period ended June 30, 2012
	\$	\$
Salaries	3,718	31,700
Professional fees	38,493	45,615
Office and general	-	1,137
Utilities	3,536	9,312
Insurance	2,420	6,285
Taxes and licences	9,256	9,056
Telecommunications	253	697
Other	-	9,274
	57,676	113,076

SARATOGA ELECTRONIC SOLUTIONS INC.
Notes to Condensed Consolidated Interim Financial Statements
For the Three-month Periods Ended June 30, 2013 and 2012

10. Share capital

Share capital authorized:

An unlimited number of the following classes of shares:

Common, voting participating shares

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

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

	Number #	Amount \$
Common shares		
BALANCE, MARCH 31, 2013 and June 30, 2013	18,461,300	1,793,803

There are no preferred shares issued and outstanding as at June 30, 2013 or 2012.

11. Share-based payments

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

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Condensed Consolidated Interim Financial Statements

For the Three-month Periods Ended June 30, 2013 and 2012

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

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

There were no options granted in 2013 or 2012.

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

	June 30, 2013		June 30, 2012	
	Number of	Weighted	Number of	Weighted
	Options	Average	Options	Average
	#	Exercise	#	Exercise
		Price		Price
	#	\$	#	\$
Balance - beginning of year	-	-	90,000	0.26
Granted	-	-	-	-
Expired	-	-	-	-
Balance - end of year	-	-	90,000	0.26

There were no options outstanding at June 30, 2013 (90,000 at 0.26 outstanding and exercisable at June 30, 2012).

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

12. Earnings (loss) per share

The calculation of basic earnings (loss) per share is based on the net income (loss) for the year divided by the weighted average number of shares in circulation during the year. In calculating the diluted earnings (loss) per share, potential ordinary shares such as share options have been included as they would have the effect of decreasing the earnings (loss) per share. Details of share options issued that could potentially dilute earnings per share in the future are given in Note 18.

SARATOGA ELECTRONIC SOLUTIONS INC.
Notes to Condensed Consolidated Interim Financial Statements
For the Three-month Periods Ended June 30, 2013 and 2012

12. Earnings (loss) per share (cont'd.)

Both the basic and diluted earnings (loss) per share have been calculated using the net income (loss) as the numerator, i.e. no adjustment to the income were necessary for the three-month periods ended June 30, 2013 and June 30, 2012 respectively.

	Three-month period	
	June 30, 2013	June 30, 2012
	\$	\$
Net loss from three-month operations	(63,938)	(106,480)
Loss per share:		
Basic and diluted loss per share	(0.00346)	(0.00577)
Weighted average number of shares outstanding:	#	#
Basic and diluted	18,461,300	18,461,300

13. Related party transactions

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

	Country of incorporation	Percentage of interest	
		June 30, 2013	June 30, 2012
9261-5277 Québec Inc.	Canada	100 %	100 %

SARATOGA ELECTRONIC SOLUTIONS INC.
Notes to Condensed Consolidated Interim Financial Statements
For the Three-month Periods Ended June 30, 2013 and 2012

13. Related party transactions (cont'd.)

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

As at	June 30, 2013	June 30, 2012
	\$	\$
Trade receivables from related parties:		
Companies with common director	42,014	20,089
Total trade receivables from related parties	42,014	20,089
Trade payables to related parties:		
Directors	7,635	4,381
Total trade payables to related parties	7,635	4,381
Revenues for the three-month period ended:		
Rental income companies under common control	4,767	4,768
Total revenues	4,767	4,768
Administrative – related parties:		
Professional fees	6,000	6,000
Total Administrative – related parties	6,000	6,000

The Group has identified its directors and certain officers as its key management personnel. The compensation costs for key management personal for the three-month periods ended June 30, 2013 and 2012 are as follows:

	2013	2012
	\$	\$
Salaries and benefits key management personal	2,218	25,400
Directors	1,500	1,500

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Condensed Consolidated Interim Financial Statements

For the Three-month Periods Ended June 30, 2013 and 2012

14. Financial instruments risks

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

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

(a) Credit risk

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

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

SARATOGA ELECTRONIC SOLUTIONS INC.

Notes to Condensed Consolidated Interim Financial Statements

For the Three-month Periods Ended June 30, 2013 and 2012

14. Financial instruments risk (cont'd.)

(b) Liquidity risk

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

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

As at June 30, 2013	Payments by Periods				
	Total	< 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
	\$	\$	\$	\$	\$
Trade and other payables	87,261	87,261	-	-	-
Trade payables to related parties	5,565	5,565	-	-	-
As at June 30, 2012					
	Total	< 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
	\$	\$	\$	\$	\$
Trade and other payables	401,829	401,829	-	-	-
Trade payables to related parties	3,811	3,811	-	-	-

The Group's primary objectives when managing capital is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. The Group capital items are cash and cash equivalents, bank loans, long-term debt, and common shares. Capital is \$1,869,215 as at June 30, 2013 (2012 – \$2,012,490).

SARATOGA ELECTRONIC SOLUTIONS INC.
Notes to Condensed Consolidated Interim Financial Statements
For the Three-month Periods Ended June 30, 2013 and 2012

14. Financial instruments risk (cont'd.)

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

The Company has also created a new class of preferred shares as described in Note 10. The primary purpose of creating these preferred shares is to provide management with greater flexibility respecting potential future financings and other corporate transactions.

(c) Foreign currency risk

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

(d) Economic conditions

The Group, at June 30, 2013 still owns the building in which its office is located; all office space not occupied by the Group is rented to various tenants. The Group's rental income is subject to economic conditions in the Montreal area. Consequently, a downturn in economic conditions could reduce office rental demand for the Group's office rental space that it does not occupy and could have a material adverse effect on the Group's office rental revenues, financial position and operating results.

15. Comparative information and restatement of prior year

Certain of the prior year's figures have been reclassified to conform to the current year's presentation.