

Condensed Consolidated Interim Financial Statements  
of

**SARATOGA ELECTRONIC  
SOLUTIONS INC.**

December 31, 2014 and 2013

# **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 Discussion 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") is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the interim report. The Committee has the responsibility of meeting with management to discuss the internal controls over the financial reporting process and financial reporting issues.

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	December 31, 2014	March 31, 2014
		\$	\$
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash		<b>5,878</b>	6,254
Funds held in trust	5	-	1,200,000
Trade and other receivables	6	<b>6,660</b>	15,313
Trade receivables from related parties	16	-	52,976
Income taxes recoverable		-	17,585
<b>Total assets</b>		<b>12,538</b>	1,292,128

*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 February 5, 2015:**

*(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	December 31, 2014	March 31, 2014
		\$	\$
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade payables		122,422	50,603
Trade payables to related parties	16	6,000	5,516
Loan payable to director	8	15,000	-
Sales taxes payable	14	-	494,668
		<b>143,422</b>	<b>550,787</b>
<b>Shareholders' equity</b>			
Common shares	11	1,793,803	1,793,803
Contributed surplus		182,650	182,650
Deficit		(2,107,337)	(2,380,112)
<b>Deficiency attributable to shareholders</b>		<b>(130,884)</b>	<b>(403,659)</b>
Non-controlling interest	9	-	1,145,000
<b>Total deficiency</b>		<b>(130,884)</b>	<b>741,341</b>
<b>Total deficiency and liabilities</b>		<b>12,538</b>	<b>1,292,128</b>

*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 February 5, 2015:**

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

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

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

	Note	Three-months ended December 31,		Nine-months ended December 31,	
		2014	2013	2014	2013
		\$	\$	\$	\$
<b>Revenues</b>		-	4,767	-	14,302
<b>Expenses</b>					
Selling and administrative	10	44,050	32,794	102,946	137,371
Depreciation of property, plant and equipment		-	8,959	-	26,877
Money remittance, net		-	16	-	(2,963)
Gain on disposal of subsidiary		-	-	(1,025,822)	-
Sales taxes assessment (recovery)		-	412,563	-	412,563
		<b>44,050</b>	454,332	<b>(922,876)</b>	573,848
<b>Income (loss) before net finance expense and income taxes</b>		<b>(44,050)</b>	(449,565)	<b>922,876</b>	(559,546)
Finance expense		149	2,039	2,128	3,840
<b>Income (loss) before income taxes</b>		<b>(44,199)</b>	(451,604)	<b>920,748</b>	(563,386)
Income tax expense:					
Current taxes		-	(42,843)	-	(42,843)
Deferred taxes		-	-	-	-
<b>Total comprehensive income (loss) for the period</b>		<b>(44,199)</b>	(408,761)	<b>920,748</b>	(520,543)
Earnings (loss) per share for the period (Note 13):					
Basic and Diluted		<b>(0.00239)</b>	(0.02214)	<b>0.04987</b>	(0.02820)
Weighted average number of common shares (Note 13)					
Basic and Diluted		<b>18,461,300</b>	18,461,300	<b>18,461,300</b>	18,461,300

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

**SARATOGA ELECTRONIC SOLUTIONS INC.**  
**Condensed Consolidated Interim Statements of Changes in Equity**  
**(Unaudited and Unreviewed by Company's Independent Auditors)**

**For the Nine-month Period Ended December 31, 2014 and 2013**

	Share capital		Contributed surplus	Deficit	Non-controlling interest	Total equity
	Number	Amount				
	#	\$	\$	\$	\$	\$
Balance at March 31, 2013	18,461,300	1,793,803	182,650	(1,834,781)	1,145,000	1,286,672
Total comprehensive income (loss)	-	-	-	(520,543)	-	(520,543)
Balance at December 31, 2013	18,461,300	1,793,803	182,650	(2,355,324)	1,145,000	766,129
Balance at March 31, 2014	18,461,300	1,793,803	182,650	(2,380,112)	1,145,000	741,341
Redemption of preferred shares held by non-controlling interest (Note 9)	-	-	-	-	(705,000)	(705,000)
Sale of subsidiary (Note 15)	-	-	-	(647,973)	(440,000)	(1,087,973)
Total comprehensive income	-	-	-	920,748	-	920,748
Balance at December 31, 2014	18,461,300	1,793,803	182,650	(2,107,337)	-	(130,884)

*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)**  
**Periods Ended**

	Note	Three-months ended December 31,		Nine-months ended December 31,	
		2014	2013	2014	2013
		\$	\$	\$	\$
<b>Cash flows (used in) from operating activities</b>					
Income (loss) from operations		(44,199)	(408,761)	920,748	(520,543)
Items not involving cash:					
Gain on disposal of subsidiary	15	-	-	(1,025,821)	-
Depreciation of property, plant and equipment		-	8,959	-	26,877
		(44,199)	(399,802)	(105,073)	(493,666)
Changes in non-cash working capital					
Trade and other receivables		-	9,020	5,910	5,987
Trade receivables from related parties		-	(5,481)	-	(18,448)
Funds held in trust		-	-	1,162,000	-
Prepaid expenses		-	10,274	-	13,271
Income taxes recoverable		-	(43,166)	11,688	(43,166)
Sales taxes payable		(1,293)	476,658	(456,417)	476,658
Trade and other payables		41,130	15,600	76,564	(34,825)
Trade payables to related parties		3,000	(13,614)	2,000	(2,464)
Cash flows from (used in) operating activities		(1,362)	49,489	696,672	(96,653)
<b>Cash flows from investing activity</b>					
Disposal of subsidiary	15	-	-	(7,048)	-
Cash flows from (used in) investing activity		-	-	(7,048)	-
<b>Cash flows used in financing activities</b>					
Loan payable to director		-	-	15,000	-
Redemption of preferred shares held by non-controlling interest (Note 9)		-	-	(705,000)	-
Cash flows used in financing activities		-	-	(690,000)	-
Net increase (decrease) in cash		(1,362)	49,489	(376)	(96,653)
Cash - beginning of year		7,240	(2,114)	6,254	144,028
Cash - end of period		5,878	47,375	5,878	47,375
Supplemental information					
Interest paid in cash				1,421	2,340
Income taxes paid (recovered) in cash				(11,688)	-

*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 Nine-month Periods Ended December 31, 2014 and 2013**

### **1. Reporting entity**

Saratoga Electronic Solutions Inc. (the “Company”) is incorporated under the *Canada Business Corporations Act* and is listed on the TSX Venture Exchange. These condensed consolidated interim financial statements of the Company as at and for the nine-month periods ended December 31, 2014 and December 31, 2013 comprise the results of the Company and its subsidiary 9261-5277 Québec Inc. (“Québec Inc”) (together referred to as the “Group” and individually as “Group entity”). The Company, through its subsidiary 9261-5277 Québec Inc., earned rental income on the leasing of some office space in its property at 2975 Hochelaga, Montreal, QC, H1W 1G1. This property was sold at year end March 31, 2014 and the Company no longer has any operations.

The Company entered into a definitive purchase agreement to sell its wholly-owned subsidiary 9261-5277 Québec Inc. (“Québec Inc.”) to Osiris Blindé (2010) Inc. The closing of the transaction was held on September 26, 2014.

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 Company 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 \$2,107,337 at December 31, 2014. In addition, the Company has sold all its operating business as explained in Note 1.

These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Company’s ability to continue as a going concern.

The Company entered into a non-binding letter of intent (the “LOI”) with the shareholders of Abba Medix Corp. (“Abba Medix”), who act at arm’s length to Saratoga, which outlines the general terms and conditions of a proposed transaction pursuant to which Saratoga will acquire all of the issued and outstanding shares of Abba Medix in exchange for shares of Saratoga (the “Transaction”). The Company’s ability to continue as a going concern is dependent upon its ability to raise additional capital and to complete the proposed transaction. There is no assurance that the Company will be able to materialize its plan.

# **SARATOGA ELECTRONIC SOLUTIONS INC.**

## **Notes to Condensed Consolidated Interim Financial Statements**

**For the Nine-month Periods Ended December 31, 2014 and 2013**

### **2. Going concern (cont'd.)**

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 Company 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 consolidated 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 consolidated financial statements could be material.

### **3. Basis of presentation**

#### **Statement of compliance**

These condensed consolidated interim financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”), and in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting. 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 consolidated financial statements of the Company and the notes thereto.

#### **Basis of measurement**

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

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 February 5, 2015.

**SARATOGA ELECTRONIC SOLUTIONS INC.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**For the Nine-month Periods Ended December 31, 2014 and 2013**

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

**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**

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that effect the application of accounting policies and the reported amounts of assets, liabilities at the date of the condensed consolidated interim financial statements and reported amount of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events or actions that are believed to be reasonable under the circumstances. The actual results may differ from these estimates, judgments and assumptions.

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, 2014 and March 31, 2013.

**4. Significant accounting policies**

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its audited annual consolidated financial statements as at and for the year ended March 31, 2014, except for the following new accounting pronouncements:

**(a) New standards, interpretations and amendments adopted during the year**

During the year, the Group adopted the following new or amended IFRS standards and Interpretations of IFRS ("Interpretations") that became mandatory for application. The adoption of these new or amended IFRS standards and Interpretations did not result in substantial changes to the Group's accounting policies and had no material effect on the amounts reported for the current or prior financial periods.

**SARATOGA ELECTRONIC SOLUTIONS INC.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**For the Nine-month Periods Ended December 31, 2014 and 2013**

**4. Significant accounting policies (contn'd)**

*IFRS 2 – Share-based payment*

The amendments to IFRS 2, issued in December 2013, clarify the definition of “vesting conditions”, and separately define a “performance condition” and a “service condition”. A performance condition requires the counterparty to complete a specified period of service and to meet a specified performance target during the service period. A service condition solely requires the counterparty to complete a specified period of service. The amendments are effective for share-based payment transactions for which the grant date is on or after July 1, 2014.

*IFRS 7 – Financial instruments: disclosures and IAS 32 Financial instruments: presentation*

Financial assets and financial liabilities may be offset, with the net amount presented in the statement of financial position, only when there is a legally enforceable right to set off and when there is either an intention to settle on a net basis or to realize the asset and settle the liability simultaneously. The amendments to IAS 32, issued in December 2011, clarify the meaning of the offsetting criterion “currently has a legally enforceable right to set off” and the principle behind net settlement, including identifying when some gross settlement systems may be considered equivalent to net settlement.

*IAS 24 – Related party disclosures*

The amendments to IAS 24, issued in December 2013, clarify that a management entity, or any member of a group of which it is a part, that provides key management services to a reporting entity, or its parent, is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. This replaces the more detailed disclosure by category required for other key management personnel compensation.

*IAS 36 – Impairment of assets*

The amendments to IAS 36, issued in May 2013, require:

- Disclosure of the recoverable amount of impaired assets; and
- Additional disclosures about the measurement of the recoverable amount when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount.

**SARATOGA ELECTRONIC SOLUTIONS INC.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**For the Nine-month Periods Ended December 31, 2014 and 2013**

**4. Significant accounting policies (contn'd)**

*IAS 39 – Financial Instruments: Recognition and measurement*

The amendments to IAS 39, issued in June 2013, clarify that notation of a hedging derivative to a clearing counterparty as a consequence of laws or regulations or the introduction of laws or regulations, does not terminate hedge accounting.

*IFRIC 21 – Levies*

In May 2013, the IASB issued IFRIC 21, which is effective for annual periods beginning on or after January 1, 2014, with earlier adoption permitted. Within IFRIC 21, a levy is defined as an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (i.e. laws and/or regulations), other than:

- those outflows of resources that are within the scope of other standards (such as income taxes that are within the scope of IAS 12); and
- fines or other penalties that are imposed for breaches of the legislation.

“Government” refers to government, government agencies and similar bodies whether local, national or international. IFRIC 21 provides an interpretation of the requirements in IAS 37 for the recognition of liabilities for obligations to pay levies that are within the scope of IFRIC 21.

**(b) Recent accounting pronouncements and amendments not yet effective**

The Group has not yet applied the new *IFRS 9 – Financial instruments* that has been issued as at December 31, 2014 but is not yet effective. The Company does not plan to early adopt this new standard.

**5. Funds held in trust**

During the year ended March 31, 2014, the Company entered into an agreement to sell the building held by Québec Inc. located at 2975 Hochelaga, Montréal, H1W 1G1. The purchase price was held in trust by the lawyers as March 31, 2014. The \$38,000 still held in trust is excluded from the condensed consolidated statements of financial position as a result of the sale of Québec Inc. (Note 15).

**SARATOGA ELECTRONIC SOLUTIONS INC.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**For the Nine-month Periods Ended December 31, 2014 and 2013**

**6. Trade and other receivables**

	December 31, 2014	March 31, 2014
	\$	\$
Trade receivables	-	15,313
Sales taxes receivable	<b>6,660</b>	-
<b>Total trade and other receivables</b>	<b>6,660</b>	<b>15,313</b>

**Aging analysis**

	\$	\$
Current	-	12,953
30 – 90 days	-	-
Over 90 days	<b>6,660</b>	2,360
<b>Total trade and other receivables</b>	<b>6,660</b>	<b>15,313</b>

No amounts are impaired at December 31, 2014 and March 31, 2014.

**7. Property, plant and equipment**

	Land	Building	Furniture and computer equipment	Total
	\$	\$	\$	\$
<b>Cost</b>				
At March 31, 2013	585,300	834,700	27,699	1,447,699
Dispositions	<b>(585,300)</b>	<b>(834,700)</b>	<b>(27,699)</b>	<b>(1,447,699)</b>
<b>At March 31, 2014 and December 31, 2014</b>	-	-	-	-
<b>Accumulated Depreciation</b>				
At March 31, 2013	-	258,866	20,029	278,895
Depreciation expense	-	34,550	1,261	35,811
Dispositions	-	(293,416)	(21,290)	(314,706)
<b>At March 31, 2014 and December 31, 2014</b>	-	-	-	-
<b>Net book value</b>				
At March 31, 2013	585,300	575,834	7,670	1,168,804
<b>At March 31 and December 31, 2014</b>	-	-	-	-

**SARATOGA ELECTRONIC SOLUTIONS INC.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**For the Nine-month Periods Ended December 31, 2014 and 2013**

**8. Loan payable to director**

	<b>December 31, 2014</b>	March 31, 2014
	\$	\$
Loan payable to the majority shareholder of the Company, non-interest bearing; unsecured and with no specific terms of repayment.	<b>15,000</b>	-
	<b>15,000</b>	-

**9. Non-controlling interest**

The non-controlling interest consists of Nil Class 'D' preferred shares (2013 – 1,145,000) of Québec 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:

	<b>December 31, 2014</b>	March 31, 2014
	\$	\$
<b>Balance beginning of year</b>	<b>1,145,000</b>	1,145,000
Redeemed during the year	<b>(705,000)</b>	-
Sale of Québec Inc. (1)	<b>(440,000)</b>	
<b>Balance, end of period</b>	<b>-</b>	1,145,000

(1) The \$440,000 is excluded from the condensed consolidated statements of financial position as a result of the sale of Québec Inc. (Note 15).



**SARATOGA ELECTRONIC SOLUTIONS INC.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**For the Nine-month Periods Ended December 31, 2014 and 2013**

**10. Selling and administrative**

Selling and administrative expenses are comprised of:

	Three-month period ended December 31,		Six-month period ended December 31,	
	2014	2013	2014	2013
	\$	\$	\$	\$
Salaries	3,000	2,218	5,000	8,154
Professional fees	41,050	10,820	96,856	79,114
Office and general	-	-	-	1,144
Utilities	-	8,391	1,088	14,632
Insurance	-	1,775	-	5,639
Taxes and licences	-	9,339	2	27,935
Telecommunications	-	251	-	753
	<b>44,050</b>	<b>32,794</b>	<b>102,946</b>	<b>137,371</b>

**11. Share capital**

Share capital authorized:

An unlimited number of the following classes of shares:

Common, voting participating shares without par value.

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.

**SARATOGA ELECTRONIC SOLUTIONS INC.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**For the Nine-month Periods Ended December 31, 2014 and 2013**

**11. Share capital (contn'd)**

	Number #	Amount \$
<b>Common shares</b>		
<b>Balance, March 31, 2014 and December 31, 2014</b>	<b>18,461,300</b>	<b>1,793,803</b>

There are no preferred shares issued and outstanding as at December 31, 2014 and 2013.

**12. Share-based payments**

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

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

There were no options granted and no stock option compensation costs incurred for the nine-month periods ended December 31, 2014 and 2013.

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

There were no options outstanding at December 31, 2014 and 2013.

**13. 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

**SARATOGA ELECTRONIC SOLUTIONS INC.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**For the Nine-month Periods Ended December 31, 2014 and 2013**

**13. Earnings (loss) per share (contn'd)**

would have the effect of decreasing the earnings (loss) per share. Details of share options issued that could potentially dilute loss per share in the future are given in Note 12.

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 periods ended December 31, 2014 and December 31, 2013 respectively.

	Three-month period ended December 31,		Nine-month period ended December 31,	
	2014	2013	2014	2013
	\$	\$	\$	\$
<b>Net income (loss) from operations</b>	<b>(44,199)</b>	(408,761)	<b>920,748</b>	(520,543)
Earnings (loss) per share:				
Basic and diluted earnings (loss) per share	<b>(0.00239)</b>	(0.02214)	<b>0.04987</b>	(0.02820)
<b>Weighted average number of shares outstanding:</b>	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>
Basic and diluted	<b>18,461,300</b>	18,461,300	<b>18,461,300</b>	18,461,300

**14. Sales taxes**

In December 2012, Quebec Inc. claimed ITCs, for the three prior years, on fees charged to it by a supplier for the housing fees related to automated banking machines. Quebec Inc. took the position that it was eligible to make this claim following a recent court ruling that clarified the current legislation defining "financial service" in the Income Tax Act in a situation where an intermediary provides on-premises space allowing a third party to render financial services to its clients. The tax authorities audited the Company in the year ended March 31, 2014 and denied the Company's position and requested that the ITCs be refunded. The remaining amount payable of \$44,911 is excluded from the consolidated statements of financial position as a result of the sale of Group entity Québec Inc. (Note 15).

**SARATOGA ELECTRONIC SOLUTIONS INC.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**For the Nine-month Periods Ended December 31, 2014 and 2013**

**15. Sale of Group entity Québec Inc.**

During the second quarter ending September 30, 2014, the Company entered into a share purchase agreement to sell all of the shares of 9261-5277 Québec Inc. for cash consideration of \$1. The following balances were excluded from the consolidated statements of financial position as a result of the sale:

	December 31, 2014
	\$
Cash	7,049
Trade and other receivables	62,378
Funds held in trust	38,000
Income taxes recoverable	5,897
Trade and other payables	6,261
Sales taxes payable	44,911
Class D preferred shares	440,000
Share capital of Québec Inc.	647,973
	<u>1,025,821</u>

This transaction, except for cash of \$7,409, has been treated as a non-cash transaction on the consolidated statements of cash flows.

**16. Related party transactions**

Balances and transactions between Saratoga Electronic Solutions Inc. and its subsidiary, which is a related party 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.

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**Notes to Condensed Consolidated Interim Financial Statements**  
**For the Nine-month Periods Ended December 31, 2014 and 2013**

**16. Related party transactions (contn'd)**

	Country of incorporation	Percentage of interest	
		<b>December 31, 2014</b>	December 31, 2013
9261-5277 Québec Inc.	Canada	Nil	100 %
The Group's related parties include private companies controlled by directors as described below.			
<b>As at</b>		<b>December 31, 2014</b>	March 31, 2014
		\$	\$
Trade receivables from related parties:			
Companies with common director		-	52,976
<b>Total trade receivables from related parties</b>		-	52,976
Trade payables to related parties:			
Directors		<b>6,000</b>	6,905
<b>Total trade payables to related parties</b>		<b>6,000</b>	6,905
<b>For the nine months ended</b>		<b>December 31, 2014</b>	December 31, 2013
		\$	\$
Revenues for the year ended:			
Rental income from companies under common control		-	14,302
<b>Total revenues</b>		-	14,302

The Group has identified its directors and certain officers as its key management personnel. The compensation costs for key management personal for the nine-month periods ended December 31, 2014 and 2013 are as follows:

	<b>December 31, 2014</b>	December 31, 2013
	\$	\$
Salaries and benefits key management personnel	-	6,654
Directors	<b>5,000</b>	1,500

# **SARATOGA ELECTRONIC SOLUTIONS INC.**

## **Notes to Condensed Consolidated Interim Financial Statements**

**For the Nine-month Periods Ended December 31, 2014 and 2013**

### **17. 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, funds held in trust, trade and other receivables, trade receivables from related parties, trade payables and trade payables to related parties are considered to be a 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. The carrying amount of financial assets, as disclosed in the statements of financial position, represents the Group's maximum exposure.

#### *(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.

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**For the Nine-month Periods Ended December 31, 2014 and 2013**

**17. Financial instruments risk (cont'd.)**

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

<b>As at December 31, 2014</b>	<b>Payments by Periods</b>				
	<b>Total</b>	<b>&lt; 1 Year</b>	<b>1 - 3 Years</b>	<b>4 - 5 Years</b>	<b>After 5 Years</b>
	\$	\$	\$	\$	\$
Trade payables	122,422	122,422	-	-	-
Trade payables to related parties	6,000	6,000	-	-	-
Loan payable to director	15,000	15,000	-	-	-

<b>As at March 31, 2014</b>	<b>Payments by Periods</b>				
	<b>Total</b>	<b>&lt; 1 Year</b>	<b>1 - 3 Years</b>	<b>4 - 5 Years</b>	<b>After 5 Years</b>
	\$	\$	\$	\$	\$
Trade payables	50,603	50,603	-	-	-
Trade payables to related parties	5,516	5,516	-	-	-
Sales taxes payable	494,668	494,668	-	-	-

*(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.

# **SARATOGA ELECTRONIC SOLUTIONS INC.**

## **Notes to Condensed Consolidated Interim Financial Statements**

**For the Nine-month Periods Ended December 31, 2014 and 2013**

### **18. Capital management**

The Company'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 Company's capital items are cash, funds held in trust and common shares. Capital is \$1,799,681 as at December 31, 2014 (March 31, 2014 – \$3,000,057).

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 does not have any externally imposed restrictions on its capital.

The Company had also created a new class of preferred shares in prior years as described in Note 11. The primary purpose of creating these preferred shares is to provide management with greater flexibility respecting potential future financings and other corporate transactions.