

# **Star Navigation Systems Group Ltd.**

**Condensed Interim Consolidated Financial  
Statements**

**(Unaudited)**

**For the three and nine month periods ended March 31, 2014 and March  
31, 2013**

**(Expressed in Canadian dollars)**

## **NOTICE TO READER**

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The accompanying unaudited condensed interim consolidated financial statements have been prepared by the Company's management and the Company's independent auditors have not performed a review of these financial statements.

Toronto, Ontario  
May 30, 2014

**Star Navigation Systems Group Ltd.**  
**Unaudited Condensed Interim Consolidated Statements of Financial Position**  
**As at March 31, 2014**  
**(Expressed in Canadian dollars)**

	March 31, 2014	June 30, 2013 (Audited)
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ -	\$ 405,603
Accounts receivable (Note 13(c))	73,789	38,381
Inventory	377,149	277,149
Prepaid expenses and sundry receivables	199,644	206,374
	650,582	927,507
<b>Property and equipment</b> (Note 5)	177,896	110,370
<b>Development and Other assets</b> (Notes 6, 7)	1,489,918	365,990
	\$ 2,318,396	\$ 1,403,867
<b>Liabilities</b>		
<b>Current</b>		
Bank Indebtedness	\$ 27,877	\$ -
Accounts payable and accrued liabilities (Note 8)	238,004	228,705
Current portion of finance lease obligation (Note 9)	36,429	36,429
Due to related parties (Note 16)	1,075,599	1,049,392
Other payables (Note 10)	196,000	196,000
Deposit on share subscription (Note 18)	324,573	-
Deferred revenue	10,000	10,000
	1,908,482	1,520,526
<b>Finance lease obligation</b> (Note 9)	174	28,738
	1,908,656	1,549,264
<b>Shareholders' Equity (Deficiency)</b>		
<b>Share capital</b> (Note 11)	30,593,927	28,327,618
<b>Contributed surplus</b> (Note 12)	13,529,713	13,210,102
<b>Deficit</b>	(43,713,900)	(41,683,117)
	409,740	(145,397)
	\$ 2,318,396	\$ 1,403,867

*Nature of Operations (Note 1)*

*Commitments and Contingencies (Note 15)*

*Subsequent Event (Note 18)*

Approved by the Board                     "Viraf S. Kapadia"                      
Director (Signed)

                    "Gus Nariman"                      
Director (Signed)

**Star Navigation Systems Group Ltd.**

**Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss**

**Periods Ended March 31, 2014 and March 31, 2013**

**(Expressed in Canadian dollars)**

	Three months ended, March 31		Nine months ended, March 31	
	2014 \$	2013 \$	2014 \$	2013 \$
<b>Revenue</b>	\$ 8,069	\$ 10,498	\$ 31,836	\$ 144,481
<b>Expenses</b>				
Cost of sales	30,272	10,411	55,386	200,747
Research and development (Note 16)	295,135	258,993	782,544	668,886
General and administrative (Note 16)	262,808	316,981	730,392	1,014,280
Marketing and promotion	108,803	73,165	324,225	183,976
Stock based compensation	50,369	-	119,971	50,170
Foreign exchange	7,097	(1,110)	4,173	(1,120)
	754,484	655,440	2,016,691	2,116,939
<b>Loss from operations</b>	<b>(746,415)</b>	<b>(644,942)</b>	<b>(1,984,855)</b>	<b>(1,972,458)</b>
<b>Other Income (expenses)</b>				
Gain(loss) on settlement of debt	40,859	-	15,859	-
Interest income	60	-	103	449
<b>Net Loss and Comprehensive Loss for the Period</b>	<b>\$ (705,496)</b>	<b>\$ (644,942)</b>	<b>\$ (1,968,893)</b>	<b>\$ (1,972,009)</b>
<b>Basic and diluted loss per common share</b>	<b>\$ (0.002)</b>	<b>\$ (0.003)</b>	<b>\$ (0.007)</b>	<b>\$ (0.009)</b>
<b>Weighted average number of common shares outstanding</b>	<b>259,527,244</b>	<b>207,624,394</b>	<b>256,664,997</b>	<b>223,499,794</b>

**Star Navigation Systems Group Ltd.**  
**Unaudited Condensed Interim Consolidated Statements of Changes in Equity (Deficiency)**  
**Periods Ended March 31, 2014 and March 31, 2013**  
**(Expressed in Canadian dollars)**

	Number of common shares	Number of Series I preferred shares	Share capital	Contributed surplus	Deficit	Total
<b>Balance at June 30, 2012</b>	<b>207,240,078</b>	<b>615,000</b>	<b>\$26,280,393</b>	<b>\$11,258,453</b>	<b>\$(38,396,973)</b>	<b>\$(858,127)</b>
Issued for cash on private placement	26,100,000	-	2,088,000	-	-	2,088,000
Issued as finders' fees on private placement	2,373,125	-	189,850	-	-	189,850
Issued as shares for debt conversion	2,550,463	-	204,037	-	-	204,037
Value allocated to warrants as part of private placement	-	-	(1,095,238)	1,095,238	-	-
Stock options exercised	48,000	-	4,800	-	-	4,800
Share issuance costs	-	-	(204,281)	-	-	(204,281)
Fair Value of options exercised	-	-	960	(960)	-	-
Stock-based compensation	-	-	-	50,170	-	50,170
Warrant modification (Note 10)	-	-	-	367,137	(367,137)	-
Loss for the period	-	-	-	-	(1,972,009)	(1,972,009)
<b>Balance at March 31, 2013</b>	<b>238,311,666</b>	<b>615,000</b>	<b>\$27,468,521</b>	<b>\$12,770,038</b>	<b>\$(40,736,119)</b>	<b>\$(497,560)</b>
<b>Balance at June 30, 2013</b>	<b>249,211,966</b>	<b>615,000</b>	<b>\$28,327,618</b>	<b>\$13,210,102</b>	<b>\$(41,683,117)</b>	<b>\$(145,397)</b>
Issued for cash on private placement	11,250,000	-	900,000	-	-	900,000
Issued as finders' fees on private placement	1,125,000	-	90,000	-	-	90,000
Value allocated to warrants as part of private placement	-	-	(137,750)	137,750	-	-
Issued on purchase of Luxell acquisition (Note 7)	25,000,000	-	1,500,000	-	-	1,500,000
Stock Options exercised	70,000	-	10,500	-	-	10,500
Share issuance costs	-	-	(96,441)	-	-	(96,441)
Warrant Modification (Note 12)	-	-	-	61,890	(61,890)	-
Stock-based compensation	-	-	-	119,971	-	119,971
Loss for the period	-	-	-	-	(1,968,893)	(1,968,893)
<b>Balance at March 31, 2014</b>	<b>286,656,966</b>	<b>615,000</b>	<b>\$30,593,927</b>	<b>\$13,529,713</b>	<b>\$(43,713,900)</b>	<b>\$409,740</b>

**Star Navigation Systems Group Ltd.**  
**Unaudited Condensed Interim Consolidated Statements of Cash Flows**  
**Periods Ended March 31, 2014 and March 31, 2013**  
**(Expressed in Canadian dollars)**

	Three months ended, March 31		Nine months ended, March 31	
	2014 \$	2013 \$	2014 \$	2013 \$
<b>Cash provided by (used in)</b>				
<b>Operations</b>				
Net loss	\$ (705,496)	\$ (644,942)	\$ (1,968,893)	\$ (1,972,009)
Items not affecting cash				
Amortization	61,990	82,150	189,104	203,229
Stock-based compensation	50,369	-	119,971	50,170
	(593,137)	(562,792)	(1,659,818)	(1,718,610)
Net changes in non-cash working capital				
Accounts receivable	(6,632)	47,493	(35,408)	(75,143)
Inventory	(100,000)	-	(100,000)	29,185
Prepaid expenses and sundry receivables	22,277	(23,706)	6,730	12,586
Accounts payable and accrued liabilities	39,504	352,325	9,299	159,471
Due to related parties	(179,000)	(129,531)	26,207	(184,565)
	(816,988)	(316,211)	(1,752,990)	(1,777,076)
<b>Investing</b>				
Asset additions	(127,500)	-	(127,500)	-
Sale of Property & equipment	21,942	-	21,942	-
Intangible asset additions	(1,275,000)	(1,229)	(1,275,000)	(26,367)
	(1,380,558)	(1,229)	(1,380,558)	(26,367)
<b>Financing</b>				
Repayment of finance lease obligation	(10,613)	(8,657)	(28,564)	(25,600)
Private Placement loans	324,573	-	324,573	-
Issuance of capital stock net of share issuance costs	1,510,500	-	2,404,059	2,282,406
	1,824,460	(8,657)	2,700,068	2,256,806
<b>Net change in cash and cash equivalents</b>	<b>(373,086)</b>	<b>(326,097)</b>	<b>(433,480)</b>	<b>453,363</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>345,209</b>	<b>846,722</b>	<b>405,603</b>	<b>67,262</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ (27,877)</b>	<b>\$ 520,625</b>	<b>\$ (27,877)</b>	<b>\$ 520,625</b>
<b>Supplemental Disclosure</b>				
Interest paid	\$ 12,243	\$ -	\$ 38,977	\$ -
Issuance of common share units for finder's fees (Note 9)	90,000	-	90,000	189,850

**Star Navigation Systems Group Ltd.**  
**Notes to Unaudited Condensed Interim Consolidated Financial Statements**  
**March 31, 2014**  
**(Expressed in Canadian dollars)**

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**1. NATURE OF OPERATIONS**

Star Navigation Systems Group Ltd. ("the Company") is devoting substantially all of its activity to the development, marketing and promotion of an In-flight Safety Monitoring System ("STAR-ISMS®"), whereby data from an aircraft can be transmitted to ground stations for the duration of a flight. Certain technology used for this system as well as patents granted have been licensed to the Company by a director and a former director of the Company who undertook the initial research and development (Note 6). In March 2012, Transport Canada granted a STC certificate to the Company for use of the system on a Boeing 737-800.

These unaudited condensed interim consolidated financial statements have been prepared on a 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. The Company incurred a net loss of \$705,496 for the three month period ended March 31, 2014 (2013 - \$644,942), has an accumulated deficit of \$43,713,900 (2013 - \$41,683,117) and has negative working capital of \$1,257,900 (2013 - (\$593,019)). The Company's ability to continue operations, meet its obligations and realize its investment in development costs is dependent on the continued support from investors and related parties to finance sales to customers, continue the project development, obtain the necessary certifications from regulatory agencies as well as successfully marketing the STAR-ISMS® for gain.

The Company has completed the development of their STAR-ISMS®. The Company's registered office is located at 203-2970 Lakeshore Blvd W., Toronto, Ontario M8V 1J7.

**2. BASIS OF PRESENTATION**

(a) Statement of Compliance

These unaudited condensed interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting and are consistent with the accounting policies disclosed in the annual audited consolidated financial statements for the year ended June 30, 2013. The unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on May 30, 2014.

(b) Basis of Measurement

The unaudited condensed interim consolidated financial statements have been prepared under the historical cost convention, except for certain financial assets which are measured at fair value through profit or loss ("FVTPL").

(c) Functional and presentation currency

These unaudited condensed interim consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

#### Principles of Consolidation

These unaudited condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned operating subsidiaries, Star Navigation Systems Inc. ("Star"), Star Navigation Systems (Quebec) Inc. and Star Navigation Systems (U.K) Ltd. Star Navigation Systems (Quebec) Inc. and Star Navigation Systems (U.K) Ltd. are inactive. All significant inter-company transactions and balances have been eliminated on consolidation. All references to the Company should be treated as references to the Company and its subsidiaries.

#### Impairment

##### (a) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in the statement of comprehensive loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the statement of comprehensive loss.

##### (b) Non-financial assets

Impairment tests on intangible assets with indefinite useful economic lives and intangible assets with definite useful lives that have not been put into use yet are undertaken annually at the financial year-end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of its value in use and fair value less costs to sell, the asset is written down to its recoverable amount.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets. The Company has one cash-generating unit for which impairment testing is performed.



**3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

Impairment (Cont'd)

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

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Revenue Recognition

The Company recognizes revenue at the time persuasive evidence of an arrangement exists, price is fixed and determinable, the delivery has occurred and collectability is reasonably assured. Revenues from the sale of the Company's STAR-ISMS® are recognized when the installation of the system is complete, defined to be when the related equipment has been installed in a customer's aircraft or transportation vehicle, tested and accepted by the customer, and has received the necessary regulatory approvals. Installations are generally conducted by customers under the Company's management and supervision. In the event the customer chooses to manage the installation without the Company's supervision, revenues are recognized when the product is delivered to the customer.

Revenues from airtime services are recognized as the services are performed based on air time used by the customer. The customer is billed at the end of each month.

In the event that the Company's STAR-ISMS® and airtime are sold as a bundled package, the Company enters into transactions that represent multiple-element arrangements. These multiple-element arrangements are assessed to determine whether they can be sold separately in order to determine if they can be treated as more than one unit of accounting or element for the purpose of revenue recognition. When there are multiple elements or units of accounting in an arrangement, the arrangement consideration is allocated to the separate units of accounting or elements on a relative fair value basis, as determined by reliable objective evidence of fair value. Objective evidence of fair value is based on the price charged when the elements are sold separately, which is in accordance with the Company's standard price list. If elements cannot be sold separately, revenue recognition is deferred until all elements have been delivered.

Foreign Exchange

Monetary assets and liabilities denominated in foreign currencies are translated at the period end exchange rate. Non-monetary assets and liabilities as well as revenue and expense transactions denominated in foreign currencies are translated at the rate prevailing at the time of the transaction. Translation gain or loss adjustments are recognized in the period in which they occur.

**3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

Loss Per Share

Basic loss per share is calculated by dividing the net loss available to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the net loss attributable to common shareholders and the weighted average number of common shares outstanding, for the effects of all dilutive potential common shares, which comprise share options and warrants issued by the Company. The outstanding share options and warrants are not included in the diluted net loss per common share as they are anti-dilutive for all periods presented.

Stock-Based Compensation and Other Stock-Based Payments

The Company applies a fair value based method of accounting to all stock-based payments. Accordingly, stock-based payments for employees are measured at the fair value of the equity instruments issued and stock-based payments for non-employees are measured at the fair value of the consideration received or provided, unless the fair value cannot be estimated reliably. In cases where the fair value cannot be estimated reliably, the Company measures these transactions by reference to the fair value of the equity instruments granted. Each tranche is considered a separate award with its own vesting period and fair value. Stock-based compensation is charged to the statement of comprehensive loss over the tranche's vesting period and the offset is credited to contributed surplus. Consideration received upon the exercise of stock options is credited to share capital and the related contributed surplus is transferred to share capital.

Warrants

For transactions involving the issuance of warrants, the Company measures these transactions at the fair value of the goods or services received, unless the fair value cannot be estimated reliably. In cases where the fair value cannot be estimated reliably, the Company measures these transactions by reference to the fair value of the equity instruments granted. In the case of unit placements, the proceeds from the issuance of units is allocated between common shares and warrants on a pro-rata basis based on relative fair values. Share issuance costs incurred in connection with the issuance of share capital are netted against the proceeds received. Any incremental fair value resulting upon modification of warrants previously issued as part of unit placements is recognized in deficit.

Accounting Estimates and Judgments

The preparation of consolidated financial statements in compliance with IFRS requires the Company's management to make certain estimates and assumptions that they consider reasonable and realistic. Despite regular reviews of these estimates and assumptions, based in particular on past achievements or anticipations, facts and circumstances may lead to changes in these estimates and assumptions which could impact the reported amount of the Company's assets, liabilities, equity or earnings. These estimates and assumptions notably relate to the amortization of and measurement of impairment of property and equipment and development and other assets, stock-based compensation, warrants, and deferred income taxes. The judgments notably relate to the purchase price allocation of the Luxell asset purchase, provisions and contingencies, assessment of going concern uncertainties, application of the deferral criteria and determination of when development was completed on the STAR-ISMS®.

**Star Navigation Systems Group Ltd.**  
**Notes to Unaudited Condensed Interim Consolidated Financial Statements**  
**March 31, 2014**  
**(Expressed in Canadian dollars)**

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**4. RECENT ACCOUNTING PRONOUNCEMENTS ISSUED AND NOT YET APPLIED**

Future IFRS changes

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods after June 30, 2013 or later periods. Many are not applicable or do not have a significant impact to the Company. The following have not yet been adopted and are being evaluated to determine the resultant impact on the Company.

- (i) IFRS 9 *Financial Instruments* was issued by the IASB in October 2010 and will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The effective date for IFRS 9, which is to be applied retrospectively, has not yet been determined.

**5. PROPERTY AND EQUIPMENT**

	Leasehold Improvement	Aircraft	Furniture and Equipment	Computer Equipment and Software	Computer Equipment under Finance Lease	Vehicles	Total
<b>Cost</b>							
Balance at June 30, 2013	\$84,626	\$50,951	\$69,180	\$148,922	\$116,101	\$6,690	\$476,470
Disposals	-	(50,951)	-	-	-	-	(50,951)
Additions	-	-	125,000	2,500	-	-	127,500
<b>Balance at March 31, 2014</b>	<b>\$84,626</b>	<b>\$-</b>	<b>\$194,180</b>	<b>\$151,422</b>	<b>\$116,101</b>	<b>\$6,690</b>	<b>\$553,019</b>
<b>Accumulated amortization</b>							
Balance at June 30, 2013	\$62,688	\$25,873	\$62,993	\$133,557	\$75,395	\$5,594	\$366,100
Amortization for period	12,694	3,135	930	5,761	15,265	247	38,032
Disposals	-	(29,008)	-	-	-	-	(29,008)
<b>Balance at March 31, 2014</b>	<b>\$75,382</b>	<b>\$-</b>	<b>\$63,923</b>	<b>\$139,318</b>	<b>\$90,660</b>	<b>\$5,840</b>	<b>\$375,123</b>
<b>Carrying Amounts</b>							
As at June 30, 2013	\$21,938	\$25,078	\$6,187	\$15,365	\$40,706	\$1,097	\$110,370
<b>As at March 31, 2014</b>	<b>\$9,244</b>	<b>\$-</b>	<b>\$130,257</b>	<b>\$12,104</b>	<b>\$25,441</b>	<b>\$850</b>	<b>177,896</b>

**Star Navigation Systems Group Ltd.**  
**Notes to Unaudited Condensed Interim Consolidated Financial Statements**  
**March 31, 2014**  
**(Expressed in Canadian dollars)**

**6. DEVELOPMENT AND OTHER ASSETS**

	Licenses	Patents (Note 7)	Goodwill (Note 7)	Website Costs	STAR- ISMS® and Peripherals	Total
<b>Cost</b>						
Balance at June 30, 2013	\$136,146	\$ -	\$ -	\$25,037	\$566,998	<b>\$ 728,181</b>
Additions	-	350,000	925,000	-	-	<b>1,275,000</b>
Balance at March 31, 2014	\$136,146	\$350,000	\$925,000	\$25,037	\$566,998	<b>\$2,003,181</b>
<b>Accumulated Amortization</b>						
Balance at June 30, 2013	\$130,284	\$ -	\$ -	\$16,054	\$215,853	<b>\$ 362,191</b>
Amortization for period	750	-	-	8,572	141,750	<b>151,072</b>
Balance at March 31, 2014	\$131,034	\$ -	\$ -	\$24,626	\$357,603	<b>\$ 513,263</b>
<b>Carrying Amounts</b>						
As at June 30, 2013	\$5,862	\$ -	\$ -	\$8,983	\$354,145	<b>\$ 365,990</b>
As at March 31, 2014	\$5,112	\$350,000	\$925,000	\$ 411	\$209,395	<b>\$1,489,918</b>

In 2002, the Company acquired the license rights to the STAR-ISMS® from a director and a former director of the Company. The underlying patents are now owned by one director of the Company (see Note 15). The Company owns the exclusive, worldwide license for the lifetime of the patents.

**7. ACQUISITIONS AND PURCHASES OF INTANGIBLE ASSETS**

On April 1, 2014, Star Navigation (Star) announced that it has completed the acquisition of the assets of Les technologies LUXELL Limited ("LUXELL"). This acquisition brings to Star new aerospace engineering capabilities, integrates and solidifies its supply chain, diversifies its product portfolio and grants immediate access to additional, complementary business and sales. LUXELL has developed and produced customized Man Machine Interface ("MMI") products for large Fortune 500 aerospace and defense customers worldwide. It has also designed and produced Star's Gen 2 on-board computer. The consideration for this acquisition was Twenty-five (25,000,000) million common shares of Star (the "Shares"). The Shares are subject to a four (4) month hold period and may not be traded prior to July 21, 2014. In addition, the Shares are also subject to the terms and conditions of an Escrow Agreement which governs the ability of the vendor to sell the Shares prior to December, 2015.

**Star Navigation Systems Group Ltd.**  
**Notes to Unaudited Condensed Interim Consolidated Financial Statements**  
**March 31, 2014**  
**(Expressed in Canadian dollars)**

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**7. ACQUISITIONS AND PURCHASES OF INTANGIBLE ASSETS (Cont'd)**

The Company is in process of determining all fair value and purchase accounting adjustments but has not completed this process as of the date of these financial statements. Our preliminary purchase price allocation for the Luxell asset purchase is as follows:

	<b>March 31, 2014</b>
Inventory	\$ 100,000
Equipment	125,000
Intangible assets - Patents	350,000
Intangible assets - Goodwill	925,000
<b>Total identifiable net assets</b>	<b>\$ 1,500,000</b>

**8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>March 31, 2014</b>	June 30, 2013 (Audited)
Trade payables	<b>\$ 174,431</b>	\$ 83,897
Accrued liabilities and other	<b>63,573</b>	144,808
	<b>\$ 238,004</b>	<b>\$ 228,705</b>

**Star Navigation Systems Group Ltd.**  
**Notes to Unaudited Condensed Interim Consolidated Financial Statements**  
**March 31, 2014**  
**(Expressed in Canadian dollars)**

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**9. FINANCE LEASE OBLIGATION**

During the year ended June 30, 2012, the Company entered into a finance lease for computer equipment. The gross amount of the minimum lease payments related to assets under the finance lease was \$117,745. The lease bears interest at 5.80%. The term of the lease is for 36 monthly payments, expiring on March 1, 2015. The following is a schedule of the future minimum lease payments under this finance lease expiring by 2015 together with the balance of the obligation under the finance lease.

	<b>March 31, 2014</b>
2014	\$ 9,812
2015	29,437
Total minimum payments	39,249
Less: interest at the implicit rate of 5.8%	(1,205)
Balance of the obligation	38,044
Less: Current portion	(36,429)
	<b>\$ 1,615</b>

**10. OTHER PAYABLES**

Other payables are amounts due to a former employee of the Company with respect to compensation, and are unsecured, non-interest bearing with no fixed terms of repayment.

**Star Navigation Systems Group Ltd.**  
**Notes to Unaudited Condensed Interim Consolidated Financial Statements**  
**March 31, 2014**  
**(Expressed in Canadian dollars)**

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**11. SHARE CAPITAL**

Authorized

- |           |   |
|-----------|---|
| 615,000   | Series I First Preferred Shares, non-voting, entitled to non-cumulative dividends at a rate of 7% in priority to common shares, redeemable at \$1.00 at the option of the Company.  |
| 350,000   | Series II First Preferred Shares, non-voting, entitled to cumulative dividends at 9% per annum in priority to common shares and exchangeable for common shares at the rates of 5 common shares, 3.33 common shares and 2.5 common shares for each Series II Preferred Share in each of the first, second and third years after issue respectively. Redeemable at \$1.00 per share at the option of the Company. |
| Unlimited | common shares   |

Issued during period

- (a) On October 18, 2013, the Company announced that, subject to TSX-Venture Exchange ("TSX-V") acceptance, that it has completed a non-brokered private placement of 11,250,000 units of the Company at a price per Unit of \$0.08 (the "Units"), for gross proceeds totaling \$900,000. The price was reserved with the TSX-V. Each Unit consists of one common share and one common share purchase warrant (a "Warrant"). Each Warrant entitles the holder to purchase one common share of the Company (a "Warrant Share") at a price of \$0.20 per Warrant Share for a term of 24 months from the closing date. Finder's fees on portions of the placement in the amount of \$90,000 will be paid in Units. All securities issued in the Offering and any shares issued upon exercise of Warrants are subject to a four month statutory hold period from the date of issuance. The net proceeds of the placement will be used for research and development, marketing and general working capital purposes. TSX-V acceptance of the private placement was subsequently received.

**12. CONTRIBUTED SURPLUS, STOCK-BASED COMPENSATION AND WARRANTS**

Stock-Based Compensation

The Company has a Stock Option Plan (the "Plan") for employees, officers, directors and consultants performing special technical or other services of the Company ("Optionees"). During 2010, the Company amended the Plan whereby the number of common shares to be issued under the Plan is not to exceed 30,000,000 common shares. The designation of Optionees, amount and vesting provisions of awards under the Plan are determined by the Board of Directors.

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**12. CONTRIBUTED SURPLUS, STOCK-BASED COMPENSATION AND WARRANTS (Cont'd)**

<b>Stock Option Transactions</b>	<b>Number</b>	<b>Exercise Price</b>	<b>Weighted-Average Exercise price</b>
<b>Balance at June 30, 2012</b>	<b>15,060,728</b>		<b>\$ 0.19</b>
Issued	6,342,900	\$0.10-\$0.20	\$ 0.14
Exercised	(48,000)	\$0.11-\$0.21	\$ 0.16
Expired	(6,535,400)	\$0.15-\$0.21	\$ 0.18
Forfeited	(250,328)	\$0.15-\$0.20	\$ 0.17
<b>Balance at June 30, 2013</b>	<b>14,569,900</b>		<b>\$ 0.19</b>
Expired	(530,000)	\$0.15-\$0.21	\$ 0.18
Exercised	(70,000)	\$0.15	\$ 0.15
Issued	3,275,000	\$0.10-\$0.12	\$ 0.20
<b>Balance at March 31, 2014</b>	<b>17,244,900</b>		<b>\$ 0.19</b>
<b>Exercisable at March 31, 2014</b>	<b>15,713,650</b>		<b>\$ 0.20</b>

The weighted average share price at the date of exercise was \$0.15 for options exercised during the nine month period ended March 31, 2014 (2013 - \$0.16).

As at March 31, 2014 the Company had stock options issued to directors, officers, employees and key consultants of the Company outstanding as follows:

<b>Date of Grant</b>	<b>Options Granted</b>	<b>Options Exercisable</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
March 31, 2008	300,000	300,000	\$0.15	March 30, 2015
June 30, 2009	627,000	627,000	\$0.10	June 14, 2014
January 8, 2010	315,000	315,000	\$0.15-\$0.21	January 1, 2015
February 26, 2010	500,000	500,000	\$0.26	January 1, 2015
March 30, 2010	2,025,000	2,025,000	\$0.15-\$0.32	March 31, 2015
June 3, 2010	450,000	450,000	\$0.15-\$0.22	March 31, 2015
February 4, 2011	500,000	500,000	\$0.21	January 1, 2015
February 10, 2011	100,000	100,000	\$0.20	January 1, 2015
February 25, 2011	500,000	500,000	\$0.29	February 24, 2016
May 31, 2011	350,000	350,000	\$0.15-\$0.21	May 31, 2014
February 17, 2012	200,000	200,000	\$0.12-\$0.20	February 18, 2015
June 6, 2012	1,930,000	1,930,000	\$0.10-\$0.20	April 15, 2015
August 31, 2012	120,000	120,000	\$0.20	August 31, 2014
January 15, 2013	1,382,900	1,382,900	\$0.15	January 15, 2018
February 15, 2013	4,670,000	4,345,000	\$0.12-\$0.15	February 14, 2018
October 21, 2013	3,275,000	2,068,750	\$0.10-\$0.12	October 20, 2016
	<b>17,244,900</b>	<b>15,713,650</b>		



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**12. CONTRIBUTED SURPLUS, STOCK-BASED COMPENSATION AND WARRANTS (Cont'd)**

The weighted average remaining contractual life of the outstanding options is 2.85 years.

The fair value of the options is recognized over the vesting period as compensation expense and contributed surplus. Stock options granted to non-employees were measured at the fair value of the equity instruments granted as the fair value of services was not reliably measurable. The fair value of the stock options granted is determined using the Black-Scholes model for pricing options under the following weighted average assumptions:

	<b>March 31, 2014</b>	June 30, 2013 (Audited)
Expected dividend yield	<b>Nil</b>	Nil
Risk free interest rate	<b>1.73%</b>	1.39%
Expected Volatility	<b>66%</b>	82%
Expected Life	<b>3.0 years</b>	4.28 years
Share price	<b>\$ 0.08</b>	\$ 0.08

Expected volatility is based on historical data.

**Warrants**

	<b>Number of Warrants</b>	<b>Weighted-average Exercise Price</b>	<b>Expiry Date</b>
<b>Balance at June 30, 2012</b>	69,368,880	\$0.27	
Issued	28,473,125	\$0.20	September 17, 2017
Issued	10,903,000	\$0.20	May 6, 2016
<b>Balance at June 30, 2013</b>	108,745,005	\$0.24	
Issued	12,375,000	\$0.20	October 18, 2015
<b>Balance at March 31, 2014</b>	121,120,005	\$0.24	

19,948,666 common share purchase warrants issued pursuant to a private placement accepted for filing January 12, 2010 (the "January 12, 2010 Warrants"), set to expire on January 12, 2014, will now expire on January 12, 2015. Each January 12, 2010 Warrant will continue to entitle the holder thereof to purchase one common share of Star at an exercise price of \$0.30.

15,200,200 common share purchase warrants issued pursuant to a private placement accepted for filing February 29, 2012 (the "February 29, 2012 Warrants"), set to expire on February 24, 2014, will now expire on February 24, 2017. Each February 24, 2012 Warrant will continue to entitle the holder thereof to purchase one common share of Star at an exercise price of \$0.30.

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**12. CONTRIBUTED SURPLUS, STOCK-BASED COMPENSATION AND WARRANTS (Cont'd)**

The fair value of the warrants modified during 2014 is determined using the Black-Scholes model for pricing warrants under the following weighted average assumptions:

	<b>March 31, 2014</b>	June 30, 2013 (Audited)
Expected dividend yield	<b>Nil</b>	<b>Nil</b>
Risk free interest rate	<b>1.04%</b>	<b>1.16%</b>
Expected volatility	<b>70%</b>	<b>79%</b>
Expected life	<b>1.92 years</b>	<b>2.14 years</b>
Share price	<b>\$ 0.30</b>	<b>\$ 0.09</b>

Expected volatility is based on historical data.

The Black-Scholes value attributed to these modifications was \$61,890 (2013 - \$367,137) and has been recorded in deficit.

The fair value of the warrants issued during 2014 determined using the Black-Scholes model for pricing warrants under the following weighted average assumptions:

	<b>March 31, 2014</b>	June 30, 2013 (Audited)
Expected dividend yield	<b>Nil</b>	<b>Nil</b>
Risk free interest rate	<b>1.18%</b>	<b>1.37%</b>
Expected Volatility	<b>79%</b>	<b>125%</b>
Expected Life	<b>2.0 years</b>	<b>4.45 years</b>
Share price	<b>\$ 0.07</b>	<b>\$ 0.05</b>

Expected volatility is based on historical data.

**13. CAPITAL RISK MANAGEMENT**

The Company includes equity, comprised of issued share capital, contributed surplus and deficit, in the definition of capital.

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to develop, market and promote its STAR-ISMS® technology and to maintain its ongoing operations. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity and warrants or by securing strategic partners.

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the period ended March 31, 2014.

#### **14. FINANCIAL RISK MANAGEMENT**

The Company is exposed to a variety of financial risks by virtue of its activities: market risk (including currency risk and interest rate risk), fair value risk, credit risk and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance.

Risk management is carried out by management under policies approved by the Board of Directors. Management is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the approved policies.

##### **(a) Market Risk**

###### **(i) Currency risk:**

The Company is exposed to foreign exchange risk from various currencies, primarily US dollars. Foreign exchange risk arises from significant sales and purchase transactions as well as recognized financial assets and liabilities denominated in foreign currencies.

The Company's main objective in managing its foreign exchange is to maintain US cash on hand to support US forecasted cash flows over a 12 month horizon. To achieve this objective the Company monitors forecasted cash flows in foreign currencies and attempts to mitigate the risk by modifying the currency of cash held. A 1% change in the foreign exchange rate would have a \$1,000 impact on foreign exchange gain.

As at March 31, 2014 the Company held \$64,158 (2013 - \$84,047) of cash and cash equivalents in US dollars.

###### **(ii) Interest rate risk:**

Interest rate risk is the risk that the future cash flows or the fair value of a financial instrument will fluctuate because of changes in market interest rates. The majority of the Company's debt is at fixed rates and due in the short term. Accordingly, there is limited exposure to cash flow or price interest rate risk.

##### **(b) Fair Value Risk**

The carrying amount of cash and cash equivalents, accounts receivables, accounts payable and accrued liabilities, due to related parties and other payables (Notes 8 and 15) approximate their fair values due to the short-term maturities of these instruments. The long-term portion of finance lease obligation has been discounted at a rate that approximates current market rates and therefore, approximates fair value.

##### **(c) Credit Risk**

The Company does not believe it is exposed to any significant concentration of credit risk. However, as disclosed in Note 15, the Company earns a significant amount of revenue from one customer. As at March 31, 2014, approximately \$61,105 (2013 - \$50,989) of the Company's receivables were past due the average credit period of 90 days.

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**14. FINANCIAL RISK MANAGEMENT (Cont'd)**

(d) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due.

The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of planned expenditures.

As at March 31, 2014, the Company has current liabilities of \$1,908,482 due within 12 months and has cash of \$(27,877) to meet its current obligations. As at March 31, 2014 the Company has working capital deficiency of \$1,257,900 and accordingly, the Company is subject to liquidity risk. Management will continue to raise capital to develop, market and promote its STAR-ISMS® technology and to maintain its ongoing operations.

**15. COMMITMENTS AND CONTINGENCIES**

- (a) The Company is committed to leases of its premises and equipment. Minimum lease payments for successive years are as follows:

<b>Year</b>	<b>Premises</b>	<b>Equipment</b>	<b>Total</b>
2014	144,000	9,444	\$ 153,444
2015	144,000	9,444	153,444
2016	144,000	9,444	153,444
2017	144,000	7,140	151,140
2018	144,000	-	144,000
	720,000	35,472	\$ 755,472

- (b) An agreement was entered into between the owner of the patents, 2283188 Ontario Limited (the "Licensor"), a Company controlled by a shareholder, director and officer of the Company, and the Company, which requires royalties to be payable by the Company to the Licensor in the amount of:
- 3% of gross revenues from all sales of airborne ISMS units;
  - 10% of all service fees; and
  - 10% of all usage.
- (c) In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with customers, vendors and former employees. Management believes that adequate provisions have been recorded in the accounts where required.

## **16. RELATED PARTY TRANSACTIONS**

The Company has accrued and carries a significant balance on its consolidated financial statements of amounts due to related parties. The amounts represent compensation accrued with respect to salary compensation for its officers, monthly compensation accrued for its directors and committee chairpersons that have accumulated over the past several years. The Company's Board of Directors are compensated at the rate of \$2,000 per month for performing duties such as providing guidance to management in areas such as budgeting, new sales contracts or joint ventures anticipated and any other issues that management deems necessary. Such amounts are accrued.

Committee Chairpersons are selected from amongst the Directors of the Company to lead the Audit, Compensation, Corporate Governance and Strategic Planning and Human Resources committees. Chairpersons are remunerated at the following rates; Audit Chairman - \$2,000 per month accrued, Corporate Governance Chairman - \$1,000 per month paid, Human Resources Chairman - \$1,000 per month accrued. All of the above amounts are recognized in the consolidated financial statements of the Company. The terms for repayment of the amounts owing to the various Board and Committee members are restricted. These amounts can only be settled when individuals wish to exercise options that have been granted to them by the Company or to participate in a private placement being offered by the Company. Such amounts are non-interest bearing and unsecured.

At March 31, 2014, management estimates that there is the potential for the amounts due to be paid in the next fiscal year, and accordingly they have been classified as current liabilities. The only fixed contractual obligations the Company has with related parties are the compensation contracts it has with the CEO and CFO.

The following balances are due to related parties as of March 31, 2014:

Due to Directors - \$86,323 (2013 - \$16,000), Due to Committee Chairpersons - \$41,323 (2013 - \$16,000), and Due to Chief Executive Officer and Chairman of the Board of Directors - \$947,953 (2013 - \$1,017,392).

The amount due to the Chief Executive Officer and Chairman of the Board of Directors resulted from salary accrual in prior years including certain years where as CEO, no salary was taken due to the economic limitations the Company was experiencing at the time.

Included in the unaudited condensed interim statement of comprehensive loss for the nine month period ended March 31, 2014, in general and administrative expenses is \$195,110 (2013 - \$495,298) in fees paid and accrued to directors and officers of the Company. An amount of \$9,000 in respect of salary (2013 - \$202,500) was paid to the Company CEO. As well, a total of \$26,005 (2013 - Nil) was paid to the Chief Executive Officer regarding interest on the outstanding loan owed to him. The rate of interest paid was Bank of Canada prime + 2%.

Also included in the general and administrative total of \$195,110 (2013 - \$495,298) were Board of Directors fees of \$70,323 (2013 - \$72,000) which were accrued. Chairperson fees of \$43,106 (2013 - \$44,798) were accrued and paid. Payments to the Chief Operating Officer \$Nil (2013 - \$112,500) were paid. Professional fees of \$60,000 (2013 - \$54,500) were paid to the Chief Financial Officer of the Company.

The amounts owing to related parties are unsecured, bear interest at prime + 2.0% and have no fixed terms for repayment.

See also Notes 6, 9 and 14(c).

**17. EXPENSE DISCLOSURES**

Employee benefits totaling \$598,117 (2013 - \$783,857) are included in research and development and general and administrative in the amounts of \$532,625 (2013 - \$385,174) and \$65,492 (2013 - \$398,683), respectively. Amortization of \$189,104 (2013 - \$203,229) is included in research and development.

**18. SUBSEQUENT EVENT**

On April 15, 2014, Star Navigation Systems Group Ltd. (TSX-V: SNA) ("Star" or the "Company") announced that, subject to TSX-Venture Exchange ("TSX-V") acceptance, Star has completed a non-brokered private placement of 27,959,933 units of the Company at a price per Unit of \$0.06 (the "Units"), for gross proceeds totaling \$1,677,596.00. The price was reserved with the TSX-V. Each Unit consists of one common share and one common share purchase warrant (a "Warrant"). Each Warrant entitles the holder to purchase one common share of the Company (a "Warrant Share") at a price of \$0.15 per Warrant Share for a term of 24 months from the closing date. Finder's fees on the placement in the amount of \$167,759.00 were paid in Units. All securities issued in the Offering and any shares issued upon exercise of Warrants are subject to a four month statutory hold period from the date of issuance. The net proceeds of the placement will be used for research and development, marketing and general working capital purposes. TSX-V acceptance of the private placement was subsequently received.