

# **Star Navigation Systems Group Ltd.**

**Condensed Interim Consolidated Financial  
Statements**

**(Unaudited)**

**For the three month periods ended September 30, 2014 and September  
30, 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  
December 1, 2014

**Star Navigation Systems Group Ltd.**  
**Unaudited Condensed Interim Consolidated Statements of Financial Position**  
**As at September 30, 2014**  
**(Expressed in Canadian dollars)**

	Sept 30, 2014	June 30, 2014 (Audited)
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ -	\$ 134,940
Accounts receivable (Note 16(c))	42,427	60,144
Inventory	530,654	440,164
Prepaid expenses and sundry receivables (Note 8)	271,421	284,675
	<b>844,502</b>	919,923
<b>Property and equipment</b> (Note 5)	<b>329,425</b>	369,394
<b>Development and other assets</b> (Note 6 and 7)	<b>970,037</b>	1,043,278
	<b>\$ 2,143,964</b>	<b>\$ 2,332,595</b>
<b>Liabilities</b>		
<b>Current</b>		
Bank Indebtedness	\$ 40,224	\$ -
Accounts payable and accrued liabilities (Note 9)	273,622	248,321
Current portion of finance lease obligation (Note 10)	82,802	92,243
Due to related parties (Note 17)	1,363,341	1,201,080
Other payables (Note 11)	196,000	196,000
Deposit on share subscription (Note 20)	272,400	
Deferred revenue	64,039	64,039
	<b>2,292,428</b>	1,801,683
<b>Finance lease obligation</b> (Note 10)	<b>67,451</b>	88,398
	<b>2,359,879</b>	1,890,081
<b>Shareholders' Equity</b>		
<b>Share capital</b> (Note 12)	<b>31,700,633</b>	31,700,633
<b>Contributed surplus</b> (Note 13)	<b>14,451,175</b>	14,437,659
<b>Deficit</b>	<b>(46,367,723)</b>	(45,695,778)
	<b>(215,915)</b>	442,514
	<b>\$ 2,143,964</b>	<b>\$ 2,332,595</b>

*Nature of Operations (Note 1)*

*Commitments and Contingencies (Note 16)*

*Subsequent Events (Note 20)*

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 September 30, 2014 and September 30, 2013****(Expressed in Canadian dollars)**

	<b>2014</b>	<b>2013</b>
<b>Revenue (Note 18)</b>	<b>\$ 69,472</b>	<b>\$ 13,855</b>
<b>Expenses</b>		
Cost of sales	16,402	10,437
Research and development (Note 19)	373,083	262,942
General and administrative (Note 19)	229,289	204,695
Marketing and promotion	122,057	90,316
Stock-based compensation	13,516	16,276
Foreign exchange	(12,930)	(2,924)
	<b>741,417</b>	<b>581,742</b>
<b>Net Loss and Comprehensive Loss for the period</b>	<b>\$(671,945)</b>	<b>\$(567,887)</b>
<b>Basic and diluted loss per common share</b>	<b>\$(0.002)</b>	<b>\$(0.002)</b>
<b>Weighted average number of common shares outstanding</b>	<b>317,692,892</b>	<b>249,211,966</b>

**Star Navigation Systems Group Ltd.**  
**Unaudited Condensed Interim Consolidated Statements of Changes in Equity (Deficiency)**  
**Periods Ended September 30, 2014 and September 30, 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, 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>
Stock-based compensation	-	-	-	16,276	-	16,276
Loss for the period	-	-	-	-	(567,887)	(567,887)
<b>Balance at Sept 30, 2013</b>	<b>249,211,966</b>	<b>615,000</b>	<b>\$28,327,618</b>	<b>\$13,226,378</b>	<b>\$(42,251,004)</b>	<b>\$(697,008)</b>
<b>Balance at June 30, 2014</b>	<b>317,692,892</b>	<b>615,000</b>	<b>\$31,700,633</b>	<b>\$14,437,659</b>	<b>\$(45,695,778)</b>	<b>\$442,514</b>
Stock-based compensation	-	-	-	13,516	-	13,516
Loss for the period	-	-	-	-	(671,945)	(671,945)
<b>Balance at Sept 30, 2014</b>	<b>317,692,892</b>	<b>615,000</b>	<b>\$31,700,633</b>	<b>\$14,451,175</b>	<b>\$(46,367,723)</b>	<b>\$(215,915)</b>

**Star Navigation Systems Group Ltd.**  
**Unaudited Condensed Interim Consolidated Statements of Cash Flows**  
**Periods Ended September 30, 2014 and September 30, 2013**  
**(Expressed in Canadian dollars)**

	2014	2013
<b>Cash provided by (used in)</b>		
<b>Operations</b>		
Net loss	\$(671,945)	\$(567,887)
Items not affecting cash		
Amortization of property and equipment	39,969	63,557
Amortization of development and other assets	73,241	-
Stock-based compensation	13,516	16,276
	<b>(545,219)</b>	<b>(488,054)</b>
Net changes in non-cash working capital		
Accounts receivable	17,717	(2,859)
Inventory	(90,490)	-
Prepaid expenses and sundry receivables	13,254	(20,584)
Accounts payable and accrued liabilities	25,301	59,508
Deferred revenue	-	-
Due to related parties	162,261	15,180
	<b>(417,176)</b>	<b>(436,809)</b>
<b>Financing</b>		
Repayment of finance lease obligation (Note 10)	(30,388)	(8,911)
Deposit on share subscription (Note 20)	272,400	-
	<b>242,012</b>	<b>(8,911)</b>
<b>Net change in cash and cash equivalents</b>	<b>(175,164)</b>	<b>(445,720)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>134,940</b>	<b>405,603</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ (40,224)</b>	<b>\$ (40,117)</b>
<b>Supplemental Disclosure</b>		
Interest paid	23,944	13,582

**Star Navigation Systems Group Ltd.**  
**Notes to Unaudited Condensed Interim Consolidated Financial Statements**  
**September 30, 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 supplemental type certificate (STC) 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 \$671,945 for the three month period ended September 30, 2014 (2013 – \$567,887), has an accumulated deficit of \$46,367,723 (2013 - \$45,695,778) and has negative working capital of \$1,447,926 (2013 – \$881,760). 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'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, 2014. The unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on December 1, 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 of disposal, 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.

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.



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

Impairment (Cont'd)

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.

Accounting Estimates and Judgements

The preparation of unaudited condensed interim 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 determination of whether the Luxell asset acquisition represents an asset purchase or a business combination and the resultant purchase price allocation, provisions and contingencies, assessment of going concern uncertainties, and the application of the deferral criteria.

#### **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, 2014 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.

##### Financial Instruments - IFRS 9

Financial Instruments – IFRS 9 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. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

##### Revenue from Contracts with Customers - IFRS 15

On May 28, 2014 the IASB issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 will replace IAS 18, Revenue, among other standards. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. The new standard is effective for fiscal years ending on or after December 31, 2017, and is available for early adoption. The Company has not yet assessed the impact of adoption of IFRS 15, and does not intend to early adopt IFRS 15 in its consolidated financial statements.

The Company has not early adopted this standard amendment, however the Company is currently assessing what impact the application of this standard amendment will have on the consolidated financial statements of the company.

##### Property, Plant and Equipment – IAS 16 and Intangible Assets IAS 38

On May 12, 2014, the IASB amended IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets to clarify that a revenue-based approach to calculate depreciation and amortization generally is not appropriate as it does not reflect the consumption of the economic benefits embodied in the related asset. These amendments must be applied prospectively for annual periods beginning on or after January 1, 2016. The amendments to IAS 16 and IAS 38 are not expected to have a significant impact on our financial statements.

**Star Navigation Systems Group Ltd.**  
**Notes to Unaudited Condensed Interim Consolidated Financial Statements**  
**September 30, 2014**  
**(Expressed in Canadian dollars)**

**5. PROPERTY AND EQUIPMENT**

	Leasehold Improvement	Furniture and Equipment	Computer Equipment and Software	Computer Equipment under Finance Lease	Vehicles	Total
<b>Cost</b>						
Balance at June 30, 2014	\$84,626	\$275,630	\$151,422	\$318,795	\$6,690	<b>\$837,163</b>
Additions	-	-	-	-	-	-
Balance at Sept 30, 2014	\$84,626	\$275,630	\$151,422	\$318,795	\$6,690	<b>\$837,163</b>
<b>Accumulated amortization</b>						
Balance at June 30, 2014	\$79,613	\$93,946	\$141,865	\$146,422	\$5,923	<b>\$467,769</b>
Amortization for period	4,231	12,939	1,195	21,547	57	39,969
Balance at Sept 30, 2014	\$83,844	\$106,885	\$143,060	\$167,969	\$5,980	<b>\$507,738</b>
<b>Carrying Amounts</b>						
As at June 30, 2014	\$5,013	\$181,684	\$9,557	\$172,373	\$767	<b>\$369,394</b>
As at Sept 30, 2014	\$782	\$168,745	\$8,362	\$150,826	\$710	<b>\$329,425</b>

**6. DEVELOPMENT AND OTHER ASSETS**

	Licenses	Patents (Note 7)	STAR-ISMS ® and Peripherals	Total
<b>Cost</b>				
Balance at June 30, 2014	\$136,146	\$908,726	\$566,998	\$1,611,870
Additions	-	-	-	-
Balance at Sept 30, 2014	\$136,146	\$908,726	\$566,998	\$1,611,870
<b>Accumulated Amortization</b>				
Balance at June 30, 2014	\$131,284	\$32,455	\$404,853	\$568,592
Amortization for period	250	32,454	40,537	73,241
Balance at Sept 30, 2014	\$131,534	\$64,909	\$445,390	\$641,833
<b>Carrying Amounts</b>				
As at June 30, 2014	\$4,862	\$876,271	\$162,145	\$1,043,278
As at Sept 30, 2014	\$4,612	\$843,817	\$121,608	\$970,037

**Star Navigation Systems Group Ltd.**  
**Notes to Unaudited Condensed Interim Consolidated Financial Statements**  
**September 30, 2014**  
**(Expressed in Canadian dollars)**

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**6. DEVELOPMENT AND OTHER ASSETS (Cont'd)**

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 18). The Company owns the exclusive, worldwide license for the lifetime of the patents.

**7. PURCHASE OF ASSETS**

On April 1, 2014, the Company completed the acquisition of certain assets of Les technologies LUXELL Limited ("LUXELL"). The consideration for this acquisition was twenty-five (25,000,000) million common shares of the Company (the "Shares") at a fair value of \$1,250,000, as well as \$40,000 in assumed debt. The transaction was measured based on the fair value of shares issued and debt assumed, in the absence of a reliable measurement of the fair value of the assets acquired. The Shares were subject to a four (4) month hold period. 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.

The purchase price allocation for the LUXELL asset purchase is as follows:

	<b>June 30, 2014 (Audited)</b>
Inventory	\$ 174,824
Equipment and furniture	206,450
Intangible assets - Patents	908,726
<b>Total identifiable net assets</b>	<b>\$ 1,290,000</b>

**8. SUNDRY RECEIVABLE**

Sundry receivable reflects an amount due from an employee of the Company with respect to units purchased during the private placement that took place in April 2014 (Note 12 – June 30, 2014 Audited Financial Statements). This receivable of \$50,142 (2013 - \$Nil) is unsecured, non-interest bearing and has no fixed terms of repayment.

**9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>Sept 30, 2014</b>	June 30, 2014 (Audited)
Trade payables	\$ 99,063	\$ 83,803
Accrued liabilities and other	174,559	164,518
	<b>\$273,622</b>	<b>\$248,321</b>

**Star Navigation Systems Group Ltd.**  
**Notes to Unaudited Condensed Interim Consolidated Financial Statements**  
**September 30, 2014**  
**(Expressed in Canadian dollars)**

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**10. 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.

During the year ended June 30, 2014, 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 \$156,577. The lease bears interest at 22.76%. The term of the lease is for 27 monthly payments, expiring on August 1, 2016.

The following is a schedule of the future minimum lease payments under these finance leases together with the balance of the obligation under the finance lease:

	<b>Sept 30, 2014</b>
2015	\$ 82,033
2016	91,728
2017	9,022
Total minimum payments	182,783
Less: interest at the implicit rate	(32,530)
Balance of the obligation	150,253
Less: Current portion	(82,802)
	<b>\$ 67,451</b>

**11. 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**  
**September 30, 2014**  
**(Expressed in Canadian dollars)**

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**12. 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 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. 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 were paid in Units. As the value of services received could not be reliably measured, the services have been measured at the fair value of finders' warrants issued using the Black-Scholes model. 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.
- (b) On April 15, 2014, the Company 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. 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 were paid in Units. As the value of services received could not be reliably measured, the services have been measured at the fair value of finders' warrants issued using the Black-Scholes model. 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.

**13. 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.

**Star Navigation Systems Group Ltd.**  
**Notes to Unaudited Condensed Interim Consolidated Financial Statements**  
**September 30, 2014**  
**(Expressed in Canadian dollars)**

**13. 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, 2013</b>	<b>14,569,900</b>		<b>\$0.19</b>
Expired	(1,457,000)	\$0.10-\$0.15	\$0.18
Forfeited	(3,215,000)	\$0.12-\$0.32	\$0.49
Exercised	(350,000)	\$0.05-\$0.07	\$0.02
Issued	5,250,000	\$0.05-\$0.15	\$0.10
<b>Balance at June 30, 2014</b>	<b>14,797,900</b>		<b>\$0.14</b>
<b>Balance at Sept 30, 2014</b>	<b>14,797,900</b>		<b>\$0.14</b>
<b>Exercisable at Sept 30, 2014</b>	<b>14,220,817</b>		<b>\$0.06</b>

The weighted average share price at the date of exercise was \$Nil for options exercised during the period ended September 30, 2014 (June 30, 2014 - \$0.06).

As at September 30, 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	\$0.07	March 30, 2016
January 8, 2010	20,000	20,000	\$0.07	January 1, 2016
March 30, 2010	1,425,000	1,425,000	\$0.15-\$0.32	March 31, 2015 - March 31, 2016
June 3, 2010	450,000	450,000	\$0.15-\$0.22	March 31, 2015 - March 31, 2016
February 4, 2011	500,000	500,000	\$0.21	January 1, 2015
February 10, 2011	100,000	100,000	\$0.07	January 1, 2016
May 31, 2011	50,000	50,000	\$0.15-\$0.21	May 31, 2018
February 17, 2012	150,000	150,000	\$0.12-\$0.20	February 18, 2015
June 6, 2012	1,730,000	1,730,000	\$0.07-\$0.20	August 22, 2014 - February 17, 2018
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	3,670,000	3,670,000	\$0.07-\$0.15	February 14, 2018
October 21, 2013	3,125,000	3,125,000	\$0.10-\$0.12	October 20, 2016
November 29, 2013	200,000	200,000	\$0.05	December 1, 2015
January 30, 2014	75,000	31,250	\$0.07	December 15, 2018
March 3, 2014	900,000	450,000	\$0.07-\$0.15	March 30, 2017
April 4, 2014	500,000	500,000	\$0.07-\$0.12	April 4, 2016
May 10, 2014	100,000	16,667	\$0.07	May 10, 2017
	<b>14,797,900</b>	<b>14,220,817</b>		



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

The weighted average remaining contractual life of the outstanding options is 2.45 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. There were no options granted in the period ended September 30, 2014.

	<b>Sept 30, 2014</b>	June 30, 2014 (Audited)
Expected dividend yield	-	Nil
Risk free interest rate	-	1.48
Expected Volatility	-	68%
Expected Life	-	2.94 years
Share price	-	\$ 0.07

Expected volatility is based on historical data.

**Warrants**

	<b>Number</b>	<b>Weighted-Average Exercise Price</b>	<b>Expiry Date</b>
<b>Balance at June 30, 2013</b>	108,745,005	\$0.24	
Issued	12,375,000	\$0.20	October 18, 2015
Issued	30,755,926	\$0.15	April 15, 2016
Expired	(10,082,215)	\$0.28	December 1, 2013- April 7, 2014
<b>Balance at June 30, 2014</b>	141,793,716	\$0.16	
Issued	-	-	
Expired	-	-	
<b>Balance at Sept 30, 2014</b>	141,793,716	\$0.16	

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 the Company 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 the Company at an exercise price of \$0.30.

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**13. 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>Sept 30, 2014</b>	June 30, 2014 (Audited)
Expected dividend yield	-	Nil
Risk free interest rate	-	1.06%
Expected volatility	-	72%
Expected life	-	2.16 years
Share price	-	0.06

Expected volatility is based on historical data.

The Black-Scholes value attributed to these modifications for the period ended Sept 30, 2014 was \$Nil (June 30, 2014 - \$585,664) and has been recorded in deficit. There were no warrant modifications in the period ended September 30, 2014.

The fair value of the warrants issued is determined using the Black-Scholes model for pricing warrants under the following weighted average assumptions. There were no warrants issued during the period ended September 30, 2014.

	<b>Sept 30, 2014</b>	June 30, 2014 (Audited)
Expected dividend yield	-	Nil
Risk free interest rate	-	1.04%
Expected Volatility	-	70%
Expected Life	-	1.92 years
Share price	-	\$ 0.07

Expected volatility is based on historical data.

#### **14. 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 September 30, 2014.

#### **15. 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 \$600 impact on foreign exchange gain.

As at September 30, 2014 the Company held \$14,280 (June 30, 2014 - \$59,822) 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.

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

(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 10 and 17) 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 19, the Company earns a significant amount of revenue from one customer. As at September 30, 2014, approximately \$30,979 (June 30, 2014 - \$31,642) of the Company's receivables were past due the average credit period of 90 days.

(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 September 30, 2014, the Company has current liabilities of \$2,292,428 due within 12 months and has a cash deficiency of \$(40,224) to meet its current obligations. As at September 30, 2014 the Company has working capital deficiency of \$1,447,926 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.

**16. COMMITMENTS AND CONTINGENCIES**

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

Item	2015	2016	2017	2018	2019	Total
Premises	151,000	151,000	151,000	151,000	151,000	755,000
Equipment	130,608	101,172	16,162			247,942

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**16. COMMITMENTS AND CONTINGENCIES (Cont'd)**

- (b) An agreement was entered into between 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:
  - a. 3% of gross revenues from all sales of airborne ISMS units;
  - b. 10% of all service fees; and
  - c. 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.

**17. 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.

The following balances are due to related parties as of September 30, 2014:

Due to Directors - \$102,000 (2013 - \$84,000), Due to Committee Chairpersons - \$33,000 (2013 - \$24,000), and Due to Chief Executive Officer and Chairman of the Board of Directors - \$1,228,341 (2013 - \$1,093,080).

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 that time.

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**17. RELATED PARTY TRANSACTIONS (Cont'd)**

Included in the unaudited condensed interim consolidated statement of comprehensive loss for the period ended September 30, 2014, in general and administrative expenses is \$53,200 (2013 - \$57,285) in fees paid and accrued to directors and officers of the Company. An amount of \$Nil in respect of salary (2013 - \$Nil) was accrued to the Company CEO. As well, a total of \$15,201 (2013 - \$13,582) was accrued 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 \$53,200 (2013 - \$57,285) were Board of Directors fees of \$18,000 (2013 - \$24,000) which were accrued. Chairperson fees of \$14,200 (2013 - \$15,285) were accrued and paid. Payments to the Chief Operating Officer of \$Nil (2013- \$12,681) were paid. Included in professional fees of \$21,000 (2013 - \$18,000), were payments 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, 8, and 11.

**18. SIGNIFICANT CUSTOMER**

During the period ended September 30, 2014, 66% (2013 - 57%) of the revenue was generated from one customer.

**19. EXPENSE DISCLOSURES**

Employee benefits totaling \$341,215 (2013 - \$195,242) are included in research and development in the amount of \$253,690 (2013 - \$181,197), general and administrative in the amount of \$58,775 (2013 - \$14,045), marketing and sales \$28,750 (2013 - \$Nil), stock based compensation in the amount of \$13,516 (2013 - \$16,276) respectively.

Amortization of \$113,210 (2013 - \$63,557) is included in research and development.

**20. SUBSEQUENT EVENTS**

On October 15, 2014, Star's registration under the Controlled Goods Program was issued. Star's MMI Division has commenced shipments to both Japan and the United States.

On November 17, 2014, Star announced that it had completed a non-brokered private placement of 15,000,000 units of the Company at a price per Unit of \$0.06, for gross proceeds totaling \$900,000. Each Unit consisted of one common share and one common share purchase warrant which entitles the holder to purchase one common share of the Company for a period of two years at \$0.15 per share.