

# **Star Navigation Systems Group Ltd.**

**Condensed Interim Consolidated Financial  
Statements**

**(Unaudited)**

**For the three and six month periods ended December 31, 2015 and  
December 31, 2014**

**(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  
February 29, 2016

**Star Navigation Systems Group Ltd.**  
**Unaudited Condensed Interim Consolidated Statements of Financial Position**  
**As at December 31, 2015**  
**(Expressed in Canadian dollars)**

	Dec 31, 2015	June 30, 2015 (Audited)
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ -	\$ -
Accounts receivable	35,433	66,259
Inventory	274,227	332,621
Prepaid expenses and sundry receivables (Note 8)	138,870	262,836
	448,530	661,716
<b>Property and equipment (Note 5)</b>	<b>149,531</b>	<b>220,892</b>
<b>Intangible assets (Note 6 and 7)</b>	<b>938,371</b>	<b>1,032,390</b>
	\$ 1,536,432	\$ 1,914,998
<b>Liabilities</b>		
<b>Current</b>		
Bank indebtedness	\$ 14,178	\$ 43,290
Accounts payable and accrued liabilities (Note 9)	718,453	677,248
Current portion of finance lease obligation (Note 10)	52,567	80,558
Other payables (Note 11)	196,000	196,000
Loan payable (Note 16)	205,060	-
Subscriptions proceeds received in advance (Note 18)	87,500	80,000
Current portion of due to related parties (Note 19)	474,470	302,976
Deferred revenue	26,107	26,107
	1,774,335	1,406,179
<b>Long Term</b>		
Due to related parties (Note 19)	1,325,369	1,325,369
Finance lease obligation (Note 10)	-	10,271
	3,099,704	2,741,819
<b>Shareholders' Equity (Deficiency)</b>		
<b>Share capital (Note 12)</b>	<b>33,355,630</b>	<b>33,138,534</b>
<b>Contributed surplus (Note 13)</b>	<b>14,767,867</b>	<b>14,723,831</b>
<b>Deficit</b>	<b>(49,686,769)</b>	<b>(48,689,186)</b>
	(1,563,272)	(826,821)
	\$ 1,536,432	\$ 1,914,998

*Nature of Operations and Going Concern (Note 1)*

*Commitments and Contingencies (Note 17)*

*Subsequent Events (Note 22)*

**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 December 31, 2015 and December 31, 2014

(Expressed in Canadian dollars)

	Three months ended, December 31		Six months ended, December 31	
	2015	2014	2015	2014
	\$	\$	\$	\$
<b>Revenue</b>	<b>\$ 304,458</b>	<b>\$ 596,466</b>	<b>\$ 416,163</b>	<b>\$ 665,937</b>
<b>Expenses</b>				
Cost of sales	101,260	270,971	156,791	287,373
Research and development (Note 16)	232,783	384,696	534,477	751,780
General and administrative (Note 16)	277,381	504,012	509,601	733,302
Marketing and promotion	45,580	150,594	167,439	278,650
Stock based compensation	-	8,661	474	22,177
Foreign exchange	(258)	(7,142)	(6,096)	(20,068)
	<b>656,746</b>	<b>1,311,792</b>	<b>1,362,686</b>	<b>2,053,214</b>
<b>Loss from operations</b>	<b>(352,288)</b>	<b>(715,326)</b>	<b>(946,523)</b>	<b>(1,387,277)</b>
<b>Other Income (expenses)</b>				
Interest expense	27,031	-	51,060	-
<b>Net Loss and Comprehensive Loss for the Period</b>	<b>\$ (379,319)</b>	<b>\$ (715,326)</b>	<b>\$ (997,583)</b>	<b>\$ (1,387,277)</b>
<b>Basic and diluted loss per common share</b>	<b>\$ (0.001)</b>	<b>\$ (0.002)</b>	<b>\$ (0.003)</b>	<b>\$ (0.004)</b>
<b>Weighted average number of common shares outstanding</b>	<b>354,100,066</b>	<b>325,584,196</b>	<b>355,762,979</b>	<b>321,876,724</b>

**Star Navigation Systems Group Ltd.**  
**Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss**  
**Periods Ended December 31, 2015 and December 31, 2014**  
**(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, 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>
Issued for cash on private placement	15,000,000	-	900,000	-	-	900,000
Issued as finders' fees on private placement	1,500,000	-	90,000	-	-	90,000
Value allocated to warrants as part of private placement	-	-	(91,892)	91,892	-	-
Stock Options exercised	275,000	-	5,250	-	-	5,250
Share issuance costs	-	-	(95,932)	-	-	(95,932)
Stock-based compensation	-	-	-	22,177	-	22,177
Loss for the period	-	-	-	-	(1,387,277)	(1,387,277)
<b>Balance at Dec 31, 2014</b>	<b>334,467,892</b>	<b>615,000</b>	<b>\$32,508,059</b>	<b>\$14,551,728</b>	<b>\$(47,083,055)</b>	<b>\$(23,268)</b>
<b>Balance at June 30, 2015</b>	<b>352,057,892</b>	<b>615,000</b>	<b>\$33,138,534</b>	<b>\$14,723,831</b>	<b>\$(48,689,186)</b>	<b>\$(826,821)</b>
Issued for cash on private placement	5,240,000	-	262,000	-	-	262,000
Issued as finders' fees on private placement	128,000	-	6,400	-	-	6,400
Value allocated to warrants as part of private placement	-	-	(43,562)	43,562	-	-
Share issuance costs	-	-	(7,742)	-	-	(7,742)
Stock-based compensation	-	-	-	474	-	474
Loss for the period	-	-	-	-	(997,583)	(997,583)
<b>Balance at Dec 31, 2015</b>	<b>357,425,892</b>	<b>615,000</b>	<b>\$33,355,630</b>	<b>\$14,767,867</b>	<b>\$(49,686,769)</b>	<b>\$(1,563,272)</b>

**Star Navigation Systems Group Ltd.**  
**Unaudited Condensed Interim Consolidated Statements of Cash Flows**  
**Periods Ended December 31, 2015 and December 31, 2014**  
**(Expressed in Canadian dollars)**

	Three months ended, December 31		Six months ended, December 31	
	2015 \$	2014 \$	2015 \$	2014 \$
<b>Cash provided by (used in)</b>				
<b>Operations</b>				
Net loss	\$ (379,319)	\$ (715,326)	\$ (997,583)	\$ (1,387,277)
Items not affecting cash				
Amortization	82,690	109,761	165,380	222,971
Stock-based compensation	-	8,661	474	22,177
	(296,629)	(596,904)	(831,729)	(1,142,129)
Net changes in non-cash working capital				
Accounts receivable	(20,034)	(199,103)	30,826	(181,386)
Inventory	65,162	129,406	58,394	38,916
Prepaid expenses and sundry receivables	48,869	(144,764)	123,966	(131,510)
Accounts payable and accrued liabilities	34,849	335,783	41,205	361,084
Deferred revenue	-	(26,743)	-	(26,743)
Due to related parties	114,955	130,440	171,494	292,701
	(53,018)	(371,891)	(405,844)	(789,067)
<b>Financing</b>				
Repayment of finance lease obligation	(19,610)	(15,094)	(38,262)	(45,482)
Loan payable	5,060		5,060	
Deposit on share subscription	87,500	(272,400)	207,500	-
Issuance of capital stock net of share issuance costs	-	899,318	260,658	899,318
	72,950	611,824	434,956	853,836
<b>Net change in cash and cash equivalents</b>	<b>19,932</b>	<b>239,933</b>	<b>29,112</b>	<b>64,769</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>(34,110)</b>	<b>(40,244)</b>	<b>(43,290)</b>	<b>134,940</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ (14,178)</b>	<b>\$ 199,709</b>	<b>\$ (14,178)</b>	<b>\$ 199,709</b>
<b>Supplemental Disclosure</b>				
Interest paid	\$ 27,031	\$ 38,229	\$ 51,060	\$ 62,173
Issuance of common share units for finder's fees (Note 9)		90,000		90,000

**Star Navigation Systems Group Ltd.**  
**Notes to Unaudited Condensed Interim Consolidated Financial Statements**  
**December 31, 2015**  
**(Expressed in Canadian dollars)**

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**1. NATURE OF OPERATIONS AND GOING CONCERN**

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). The Company has been granted supplemental type certificates (STC) for use of the systems on a Boeing 737 and Airbus A320.

The Company's registered office is located at 300-2970 Lakeshore Blvd W., Toronto, Ontario M8V 1J7. The Company is a public company listed on the TSX-Venture exchange trading under the symbol of "SNA".

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 \$997,583 for the period ended December 31, 2015 (December 31, 2014 – \$1,387,277), has an accumulated deficit of \$49,686,769 (June 30, 2015 - \$48,689,186) and has negative working capital of \$1,325,805 (June 30, 2015 – \$744,463). Whether and when the Company can attain profitability and positive cash flow is uncertain. These material uncertainties cast significant doubt about the Company's ability to continue as a going concern. 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.

**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, 2015. The unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on February 29, 2016.

(b) Basis of Measurement

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

(c) Functional and presentation currency

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

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

#### 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.

#### 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.



**Star Navigation Systems Group Ltd.**  
**Notes to Unaudited Condensed Interim Consolidated Financial Statements**  
**December 31, 2015**  
**(Expressed in Canadian dollars)**

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

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.

Revenue from repairs and maintenance of STAR-MMI flat panel displays units are recognized when the unit has been repaired and shipped 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.

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.

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

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 Judgments

The preparation of these consolidated financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and underlying assumptions are reviewed on an ongoing basis. Actual outcomes may differ from these estimates under different assumptions and conditions.

The most significant estimates relate to the determination of the expected life of property and equipment and intangible assets; inventory valuation; valuation of deferred income tax amounts; impairment testing on intangible assets; the calculation of stock-based compensation; and the valuation of options and warrants granted.

The most significant judgments relate to recoverability of capitalized amounts, recognition of deferred tax assets and liabilities, determination of whether the Luxell asset acquisition represents an asset purchase or business combination and the resultant purchase price allocation, provisions and contingencies, assessment of going concern uncertainties, classification of leases as finance versus operating, and the application of the deferral criteria on the GUI system.

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

Certain pronouncements were issued by the IASB or the IFRSIC that are mandatory for accounting periods after June 30, 2015 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.

##### Presentation of Financial Statements – IAS 1

IAS 1 Presentation of Financial Statements was amended by the IASB in December 2014. The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures. Effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

##### Financial Instruments - IFRS 9

Financial Instruments - IFRS 9 was issued by the IASB in July 2014 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. A new hedge accounting model is introduced and represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements. The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions. Effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

##### 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 beginning on or after January 1, 2018, 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.

##### 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 the Company's financial statements.

**Star Navigation Systems Group Ltd.**  
**Notes to Unaudited Condensed Interim Consolidated Financial Statements**  
**December 31, 2015**  
**(Expressed in Canadian dollars)**

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**5. PROPERTY AND EQUIPMENT**

	Furniture and Equipment	Computer Equipment and Software	Computer Equipment under Finance Lease	<b>Total</b>
<b>Cost</b>				
Balance at June 30, 2015	\$275,630	\$151,422	\$318,795	\$745,847
Disposals	-	-	-	-
Additions	-	-	-	-
<b>Balance at Dec 31, 2015</b>	<b>\$275,630</b>	<b>\$151,422</b>	<b>\$318,795</b>	<b>\$745,847</b>
<b>Accumulated amortization</b>				
Balance at June 30, 2015	\$145,702	\$146,644	\$232,609	\$524,955
Amortization for the period	25,878	2,389	43,094	71,361
Disposals	-	-	-	-
<b>Balance at Dec 31, 2015</b>	<b>\$171,580</b>	<b>\$149,033</b>	<b>\$275,703</b>	<b>\$596,316</b>
<b>Carrying Amounts</b>				
As at June 30, 2015	\$129,928	\$4,778	\$86,186	\$220,892
<b>As at Dec 31, 2015</b>	<b>\$104,050</b>	<b>\$2,389</b>	<b>\$43,092</b>	<b>\$149,531</b>

**Star Navigation Systems Group Ltd.**  
**Notes to Unaudited Condensed Interim Consolidated Financial Statements**  
**December 31, 2015**  
**(Expressed in Canadian dollars)**

**6. INTANGIBLE ASSETS**

Cost	License Rights	Patents (Note 7)	GUI System	STAR-ISMS® and Peripherals	Total
Balance at June 30, 2015	\$ 136,146	\$ 908,726	\$ 238,326	\$ 619,498	\$ 1,902,696
Additions					
<b>Balance at Dec 31, 2015</b>	<b>\$ 136,146</b>	<b>\$ 908,726</b>	<b>\$ 238,326</b>	<b>\$ 619,498</b>	<b>\$ 1,902,696</b>
Accumulated Amortization					
Balance at June 30, 2015	\$ 132,284	\$ 162,273	\$ -	\$ 575,749	\$ 870,306
Amortization for period	500	64,909	19,860	8,750	94,019
<b>Balance at Dec 31, 2015</b>	<b>\$ 132,784</b>	<b>\$ 227,182</b>	<b>\$ 19,860</b>	<b>\$ 584,499</b>	<b>\$ 964,325</b>
Carrying Amounts					
As at June 30, 2015	\$ 3,862	\$ 746,453	\$ 238,326	\$ 43,749	\$ 1,032,390
<b>As at Dec 31, 2015</b>	<b>\$ 3,362</b>	<b>\$ 681,544</b>	<b>\$ 218,466</b>	<b>\$ 34,999</b>	<b>\$ 938,371</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 the CEO and director of the Company (see Note 17). The Company owns the exclusive, worldwide license for the lifetime of the patents.

**Star Navigation Systems Group Ltd.**  
**Notes to Unaudited Condensed Interim Consolidated Financial Statements**  
**December 31, 2015**  
**(Expressed in Canadian dollars)**

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**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.

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

	June 30, 2014
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. PREPAID EXPENSE AND SUNDRY RECEIVABLE**

Prepaid expense includes contracts paid in advance by the Company. Sundry receivable includes an amount due from the Government of Canada in relation to Harmonized Sales tax refunds.

**9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	Dec 31, 2015	June 30, 2015
Trade payables	<b>\$ 409,220</b>	\$ 324,145
Accrued liabilities and other <sup>(a)</sup>	<b>309,233</b>	353,103
	<b>\$718,453</b>	\$677,248

(a) Included in accrued liabilities and other are payroll remittance arrears totaling \$218,424 (2015 - \$219,954).

**Star Navigation Systems Group Ltd.**  
**Notes to Unaudited Condensed Interim Consolidated Financial Statements**  
**December 31, 2015**  
**(Expressed in Canadian dollars)**

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**10. FINANCE LEASE OBLIGATION**

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>Dec 31, 2015</b>
2016	\$ 45,864
2017	10,444
Total minimum payments	56,308
Less: interest at the implicit rate	(3,741)
Balance of the obligation	52,567
Less: Current portion	(52,567)
	\$ -

**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.

**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

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**12. SHARE CAPITAL (Cont'd)**

Issued during period

- (a) On July 20, 2015, the Company closed the first tranche of a non-brokered private placement, having issued 5,000,000 units of the Company (the "Units") at a price per Unit of \$0.05 for gross proceeds of \$250,000. Each Unit consists of one common share in the capital of the Company and one warrant. One-half (1/2) of the number of warrants acquired entitle the holder to purchase one (1) additional common share of the Corporation at six (\$0.06) cents per warrant exercised and the remaining one-half (1/2) of the warrants entitle the holder to purchase one additional common share of the Corporation at twelve (\$0.12) cents per warrant exercised. The warrants are exercisable during the two (2) year period from the date of issue. Star has agreed to pay finder's fees in the amount of eight (8%) percent of gross proceeds in Units. The price was reserved with the TSX-V.
- (b) On August 18, 2015, the Company closed the final tranche of its previously announced non-brokered private placement, having issued a total of 5,240,000 units of the Company (the "Units") at a price per Unit of \$0.05 for gross proceeds of \$262,000. Each Unit consists of one common share in the capital of the Company and one warrant. One-half (1/2) of the number of warrants acquired entitle the holder to purchase one (1) additional common share of the Corporation at six (\$0.06) cents per warrant exercised and the remaining one-half (1/2) of the warrants entitle the holder to purchase one additional common share of the Corporation at twelve (\$0.12) cents per warrant exercised. The warrants are exercisable during the two (2) year period from the date of issue.

Due to the fact that the private placement was completed in two tranches, there are two hold period expiry dates and two warrant expiry dates associated with the shares and warrants issued. The first tranche four month hold period on 5,000,000 common shares expires November 25, 2015; the second tranche four month hold period on 240,000 common shares expires December 25, 2015. Any common shares issued as the result of conversion of warrants will also be subject to the same hold periods. In addition, 5,000,000 warrants will expire on July 25, 2017, while 240,000 warrants will expire on August 25, 2017. Star has agreed to pay finder's fees in the amount 128,000 Units. The price was reserved with the TSX-V.

**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.



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

<b>Stock Option Transactions</b>	<b>Number</b>	<b>Exercise Price</b>	<b>W.A Exercise Price</b>
<b>Balance at June 30, 2014</b>	<b>14,797,900</b>		<b>\$0.14</b>
Options issued	300,000	\$0.10	\$0.10
Options forfeited	(3,045,000)	\$0.07-\$0.15	\$0.10
Options expired	(2,255,000)	\$0.10-\$0.21	\$0.16
Options exercised	(275,000)	\$0.05-\$0.07	\$0.06
<b>Balance at June 30, 2015</b>	<b>9,522,900</b>		<b>\$0.13</b>
<b>Balance at Dec 31, 2015</b>	<b>9,522,900</b>		<b>\$0.13</b>
<b>Exercisable at Dec 31, 2015</b>	<b>9,491,900</b>		<b>\$0.13</b>

As at Dec 31, 2015 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	600,000	600,000	\$0.07-\$0.32	March 31, 2016
June 3, 2010	50,000	50,000	\$0.22	March 31, 2016
February 10, 2011	100,000	100,000	\$0.07	January 1, 2016
May 31, 2011	50,000	50,000	\$0.07	May 31, 2018
June 6, 2012	1,300,000	1,300,000	\$0.07-\$0.20	April 15, 2016-February 17, 2018
August 31, 2012	120,000	120,000	\$0.20	August 31, 2016
January 15, 2013	1,382,900	1,382,900	\$0.15	January 14, 2018
February 15, 2013	2,350,000	2,350,000	\$0.07-\$0.15	February 14, 2018
October 21, 2013	1,925,000	1,925,000	\$0.10-\$0.12	October 20, 2016
January 30, 2014	25,000	19,000	\$0.07	December 15, 2018
March 3, 2014	900,000	900,000	\$0.06-\$0.15	March 30, 2017
May 10, 2014	100,000	75,000	\$0.07	May 10, 2017
Nov 26, 2014	300,000	300,000	\$0.10	Nov 26, 2016
	<b>9,522,900</b>	<b>9,491,900</b>		

The weighted average remaining contractual life of the outstanding options is 1.35 years.

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

**Warrants**

	Number	Weighted-Average Exercise Price	Expiry Date
<b>Balance at June 30, 2015</b>	142,672,051	\$0.14	
Issued	5,368,000	\$0.09	July 25, 2017- August 25, 2017
Expired	(10,875,000)	\$0.20	September 15, 2015
<b>Balance at Dec 31, 2015</b>	<b>137,165,051</b>	<b>\$0.12</b>	

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

	2015	2014
Expected dividend yield	<b>Nil</b>	Nil
Risk free interest rate	<b>0.42%</b>	Nil
Expected volatility	<b>71%</b>	Nil
Expected life	<b>2 years</b>	Nil
Share price	<b>\$0.04</b>	Nil

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 December 31, 2015.

## **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 \$100 impact on foreign exchange.

As at December 31, 2015 the Company held \$610 (June 30, 2015 - \$183) of cash in US dollars, as well the Company had \$35,434 (June 30, 2015 - \$66,259) in accounts receivable that are in US dollars. As at December 31, 2015 the Company had \$53,328 (June 30, 2015 - \$61,718) in accounts payable and accrued liabilities that are in US dollars. A 1% change in the foreign exchange rate would have a \$178 impact on profit and loss.

#### **(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, accounts receivables, accounts payable and accrued liabilities, due to related parties and other payables 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 December 31, 2015, approximately \$3,857 (June 30, 2015 - \$21,350) of the Company's receivables were past due the average credit period of 90 days.

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**15. 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 Dec 31, 2015, the Company has current liabilities of \$1,776,335 due within 12 months and has a bank indebtedness balance of \$14,178. As at Dec 31, 2015 the Company has working capital deficiency of \$1,325,805 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 operations.

**16. LOAN PAYABLE**

On August 14, 2015, the Company entered into a loan agreement with a private investor to borrow \$200,000. Principal and interest is due on November 18, 2015. A total of \$11,000 in legal fees, commitment fees and lender's fees and interest of \$9,000 is due with the principal. The Company can repay the principal and interest, legal fees, commitment fees and lender's fees (the "fees") early without penalty. If the Company pays the principal in full on or before the following dates then the fees repayable are as follows; a) September 14, 2015 - \$6,667 b) October 14, 2015 - \$13,333 and c) November 18, 2015 - \$20,000. The effective interest rate applicable to this loan is 25%. This loan is unsecured. If the principal and all accrued fees are not paid by the aforementioned date, the interest shall accrue from and after that date at the rate of 18% per annum calculated monthly not in advance. The loan was not repaid on November 18, 2015 and interest has started to accrue at 18% per annum. Interest accrued at December 31, 2015 was \$5,020.

**17. 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	2016	2017	2018	2019	2020	Total
Premises	\$144,000	\$144,000	\$144,000	\$144,000	\$144,000	\$720,000
Equipment	\$103,628	\$ 16,137	\$ -	\$ -	\$ -	\$119,765

- (b) The Company has an employment agreement with its Chief Executive Officer and Chairman of the Board that will pay a royalty of 3% on gross sales that occur after the Termination Event as defined below. Termination Event includes the following; a) resignation within two years following a change of control and b) termination within two years following a change of control, other than termination for cause or death.
- (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.

**18. SUBSCRIPTION PROCEEDS RECEIVED IN ADVANCE**

The Company had accumulated \$87,500 towards a private placement that was started prior to the close of December 31, 2015 and is still in progress. The balance at December 31, 2015 is \$87,500 (June 30, 2015 - \$80,000).

**19. 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 corporate governance, reviewing strategic plans, budgeting, material contracts or joint ventures and any other material information deemed 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 Company has an exclusive license agreement in place with a company owned and controlled by its CEO and Chairman of the Board regarding the use of patents related to the STAR-ISMS® technology.

The Company has an employment agreement in place with its CEO and Chairman of the Board regarding royalties to be paid upon future sales of the Company's STAR-ISMS® technology products which becomes effective under certain conditions on the termination of the CEO from the Company.

The Company has a loan agreement in place with the CEO dated June 30, 2015. The agreement provides that the loan be separated into both short and long-term portions of the obligation owed to the CEO. The CEO has waived his right to demand repayment on the long-term amounts due to him by the Company prior to June 30, 2016. The agreement provides that up to \$180,000 could be paid towards the short-term portion of the loan within the fiscal year 2016. The balance will be paid subsequent to fiscal 2016.

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

The amount due to related parties as of Dec 31, 2015 is \$1,799,839 (June 30, 2015 - \$1,628,345) and is comprised of the following,

	2015	2015
Due to Directors	\$ 73,000	\$ 43,599
Due to Committee Chairpersons	20,000	4,000
Due to Chief Executive Officer	1,589,682	1,505,369
Due to Chief Operating Officer	117,157	75,377
<b>Total at December 31, 2015</b>	<b>\$1,799,839</b>	<b>\$1,628,345</b>

The Company also owes \$26,651 (June 30, 2015 - \$23,403) in credit card debt that is guaranteed by the CEO and Chairman of the Board in accounts payables and accrued liabilities.

The amount due to related parties included in the unaudited condensed interim consolidated statement of comprehensive loss as of Dec 31, 2015 is \$293,712 (Dec 31, 2014 – \$265,399). This amount in general and administrative expense represents fees paid and accrued to directors and officers of the Company;

	2015	2014
Chief Executive Officer	\$46,716	\$135,000
Chief Operating Officer	92,000	-
Chief Financial Officer	42,000	42,000
Board of Director fees	46,000	36,000
Committee Chairperson fees	28,599	19,599
Interest on loan to Chief Executive Officer	38,397	32,800
<b>Total at December 31, 2015</b>	<b>\$293,712</b>	<b>\$ 265,399</b>

The amounts owing to related parties are unsecured, bear interest at prime + 2.0% and have no fixed terms for repayment. The interest payable at prime + 2.0% is applicable to only the amount due to the CEO and Chairman of the Board. It is not applicable on amounts owed to members of the Board of Directors.

**20. SIGNIFICANT CUSTOMER**

During the period ended Dec 31, 2015, 97% (Dec 31, 2014 - 91%) of the revenue was generated from one customer. During the period ended Dec 31, 2015, 93% (Dec 31, 2014 – 94%) of the revenue recognized during the year was generated from customers located in the United States. During the period ended Dec 31, 2015, 91% (Dec 31, 2014 – 38%) of revenue earned is from repairs and maintenance services on STAR-MMI flat panel displays units.

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**21. EXPENSE DISCLOSURES**

General and Administrative:

	2015	2014
Accounting fees	\$42,000	\$42,000
Bank charges & interest	6,367	67,355
Board and Committee fees	74,599	55,599
Insurance	61,524	54,085
Other	53,874	72,588
Professional fees	11,896	68,634
Rent	80,214	125,266
Wages	179,127	247,775
<b>Total G&amp;A expenses</b>	<b>\$509,601</b>	<b>\$733,302</b>

Research and development:

	2015	2014
Amortization expense	\$165,380	\$222,971
IT costs	11,400	12,000
Other	-	1,969
R&D costs	12,517	2,983
Travel costs	7,501	4,519
Wages	337,679	507,338
<b>Total R&amp;D expenses</b>	<b>\$534,477</b>	<b>\$751,780</b>

Marketing and Promotion:

	2015	2014
Consultant costs	\$60,107	\$126,785
Investor relations	45,000	51,000
Other	-	7,932
Salaries	28,750	57,500
Travel costs	33,582	35,433
<b>Total M&amp;P expenses</b>	<b>\$167,439</b>	<b>\$278,650</b>

## **22. SUBSEQUENT EVENTS**

- (a) The Company announces that it intends to complete a non-brokered private placement (the "Offering"), to raise up to \$1 million. The Offering will issue up to 33,333,333 Units at a price per Unit of \$0.03 and is being done under a waiver granted by the TSX Venture Exchange ("TSX-V"), pursuant to the Discretionary Waivers of \$0.05 Minimum Pricing Requirement bulletin dated April 7, 2014. The waiver requires that the Offering raise a minimum of \$882,000. Each Unit will consist of one (1) common share and one common share purchase warrant ("Warrant"). Each Warrant will entitle the holder to acquire one common share at a price of \$0.07 for a period of three years from the date of issue. The net proceeds from the Offering are to be used for research and development and corporate overhead purposes. Star has agreed to pay finder's fees in the amount of ten (10%) percent of gross proceeds in cash, Units or in a combination of cash and Units. Any Units payable as finder's fees will be valued at \$0.05 per Unit. 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 financing is subject to the final approval of the TSX-V. The proceeds from the private placement will be used by Star for working capital (6 months - \$882,000 – payroll, leases, insurance, G&A), payables (\$411,000), and short term debt repayment (\$125,000), for a total of \$1,481,000. There will be no related party payments. Offsetting these expenses will be minimum estimated revenues amounting to over \$420,000 in the next 6 months. This estimate is based upon orders already booked and customer order patterns.