

# **Star Navigation Systems Group Ltd.**

**Condensed Interim Consolidated Financial  
Statements**

**(Unaudited)**

**For the three month periods ended September 30, 2016 and September  
30, 2015**

**(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  
November 29, 2016



**Star Navigation Systems Group Ltd.**  
**Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss**  
**Periods Ended September 30, 2016 and September 30, 2015**  
**(Expressed in Canadian dollars)**

	2016	2015
<b>Revenue (Note 19)</b>	<b>\$ 116,730</b>	<b>\$ 111,705</b>
<b>Expenses</b>		
Cost of inventory consumed	17,126	55,531
Foreign exchange	(201)	(5,846)
General and administrative (Note 20)	257,540	232,227
Marketing and promotion (Note 20)	26,500	121,859
Research and development (Note 20)	179,908	301,695
Stock based compensation (Note 13)	35,965	474
	<b>516,838</b>	<b>705,940</b>
<b>Loss from operations</b>	<b>(400,108)</b>	<b>(594,235)</b>
<b>Other Income (Expenses)</b>		
Interest expense (Notes 11 & 18)	(36,086)	(24,029)
<b>Net Loss and Comprehensive Loss for the period</b>	<b>\$ (436,194)</b>	<b>\$ (618,264)</b>
<b>Basic and diluted loss per common share</b>	<b>\$ (0.001)</b>	<b>\$ (0.002)</b>
<b>Weighted average number of common shares outstanding</b>	<b>390,894,805</b>	<b>354,100,066</b>

**Star Navigation Systems Group Ltd.**  
**Unaudited Condensed Interim Consolidated Statements of Changes in Deficiency**  
**Periods Ended September 30, 2016 and September 30, 2015**  
**(Expressed in Canadian dollars)**

	Number of common shares	Number of Series I preferred shares	Share capital	Contributed surplus	Deficit	<b>Total</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	-	-	-	-	(618,264)	(618,264)
<b>Balance at Sept 30, 2015</b>	<b>357,425,892</b>	<b>615,000</b>	<b>\$33,355,630</b>	<b>\$14,767,867</b>	<b>\$(49,307,450)</b>	<b>\$(1,183,953)</b>
<b>Balance at June 30, 2016</b>	<b>390,894,805</b>	<b>615,000</b>	<b>\$34,078,277</b>	<b>\$15,469,792</b>	<b>\$(52,585,818)</b>	<b>\$(3,037,749)</b>
Stock-based compensation (Note 13)	-	-	-	35,965	-	35,965
Loss for the period	-	-	-	-	(436,194)	(436,194)
<b>Balance at Sept 30, 2016</b>	<b>390,894,805</b>	<b>615,000</b>	<b>\$34,078,277</b>	<b>\$15,505,757</b>	<b>\$(53,022,012)</b>	<b>\$(3,437,978)</b>

**Star Navigation Systems Group Ltd.**  
**Unaudited Condensed Interim Consolidated Statements of Cash Flows**  
**Periods Ended September 30, 2016 and September 30, 2015**  
**(Expressed in Canadian dollars)**

	2016	2015
<b>Cash provided by (used in)</b>		
<b>Operations</b>		
Net loss	\$ (436,194)	\$ (618,264)
Items not affecting cash		
Depreciation	11,218	35,681
Amortization of intangible assets	4,626	47,010
Stock-based compensation	35,965	474
	<b>(384,385)</b>	<b>(535,099)</b>
Net changes in non-cash working capital		
Accounts receivable	(799)	50,860
Inventory	7,983	(6,758)
Prepaid expenses and sundry receivables	7,345	75,277
Accounts payable and accrued liabilities	62,189	6,355
Deferred revenue	48,724	-
Due to related parties	210,447	56,539
	<b>(48,496)</b>	<b>(352,826)</b>
<b>Financing</b>		
Repayment of finance lease obligation	(8,523)	(18,652)
Loan payable	11,334	200,000
Deposit on share subscription	-	(80,000)
Issuance of common shares (net of share issuance costs)	-	260,658
	<b>2,811</b>	<b>362,006</b>
<b>Net change in bank indebtedness</b>	<b>(45,685)</b>	<b>9,180</b>
<b>Bank indebtedness, beginning of period</b>	<b>(59,464)</b>	<b>(43,290)</b>
<b>Bank indebtedness, end of period</b>	<b>\$ (105,149)</b>	<b>\$ (34,110)</b>
<b>Supplemental Disclosure</b>		
Interest paid	\$ 36,086	\$ 24,029

**Star Navigation Systems Group Ltd.**  
**Notes to Unaudited Condensed Interim Consolidated Financial Statements**  
**September 30, 2016**  
**(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".

**Going Concern**

These 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 \$436,194 for the period ended Sept 30, 2016 (2015 – \$618,264), has an accumulated deficit of \$53,022,012 (June 30, 2016 - \$52,585,818) and has negative working capital of \$2,250,628 (June 30, 2016 – \$1,866,243). During the period ended Sept 30, 2016, the Company had one customer in which 100% of its revenue was received from (2015 – 96% of revenue from three customers). The Company is also in default of remitting payroll withholding taxes to the Canadian Revenue Agency and is overdue on the payment of its trade payables. 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. These unaudited condensed interim consolidated financial statements do not reflect adjustments in the carrying values of the Company's assets and liabilities, revenues and expenses, and the balance sheet classifications used, that may be necessary should the Company be unable to continue its operations. Such adjustments could be material.

**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, 2016. The unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on November 25, 2016.

**2. BASIS OF PRESENTATION (Cont'd)**

(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 and its subsidiaries' functional currency.

(d) Basis of Preparation

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Company's management to exercise judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where the assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2(e).

(e) Accounting Estimates and Judgements

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.

**3. SIGNIFICANT ACCOUNTING POLICIES**

**Revenue Recognition**

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. During the period ended Sept 30, 2016, \$116,730 (2015 - \$107,213) of total revenue related to this revenue stream, see Note 19 for discussion on customer dependency.

The Company recognizes revenue at the time persuasive evidence of an arrangement exists, the price is fixed and determinable, the delivery has occurred and collectability is reasonably assured.

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

**Revenue Recognition (Cont'd)**

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.

**Provisions**

A provision is recognized on the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, 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, where appropriate, the risks specific to the liability.

**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 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. 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.

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

**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.

**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, 2016 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.

**4. RECENT ACCOUNTING PRONOUNCEMENTS ISSUED AND NOT YET APPLIED (Cont'd)**

**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. 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.

**Leases – IFRS 16**

Leases ("IFRS 16") replaces IAS 17, Leases ("IAS 17"). The new model requires the recognition of almost all lease contracts on a lessee's statement of financial position as a lease liability reflecting future lease payments and a 'right-of-use asset' with exceptions for certain short-term leases and leases of low-value assets. In addition, the lease payments are required to be presented on the statement of cash flow within operating and financing activities for the interest and principal portions, respectively. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15, Revenue from Contracts with Customers, is also applied. The Company is still evaluating the impact of the adoption of IFRS 16.

**Star Navigation Systems Group Ltd.**  
**Notes to Unaudited Condensed Interim Consolidated Financial Statements**  
**September 30, 2016**  
**(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>				
<b>Balance at June 30, 2016</b>	\$ 275,630	\$ 151,422	\$ 318,795	\$ 754,847
Additions	-	-	-	-
<b>Balance at Sept 30, 2016</b>	<b>\$ 275,630</b>	<b>\$ 151,422</b>	<b>\$ 318,795</b>	<b>\$ 745,847</b>
<b>Accumulated Depreciation</b>				
<b>Balance at June 30, 2016</b>	\$ 196,359	\$ 149,033	\$ 275,703	\$ 621,095
Amortization for the period	5,533	299	5,386	11,218
<b>Balance at Sept 30, 2016</b>	<b>\$ 201,892</b>	<b>\$ 149,332</b>	<b>\$ 281,089</b>	<b>\$ 632,313</b>
<b>Carrying Amounts</b>				
As at June 30, 2016	\$ 79,271	\$ 2,389	\$ 43,092	\$ 124,752
<b>As at Sept 30, 2016</b>	<b>\$ 73,738</b>	<b>\$ 2,090</b>	<b>\$ 37,706</b>	<b>\$ 113,534</b>

**Star Navigation Systems Group Ltd.**  
**Notes to Unaudited Condensed Interim Consolidated Financial Statements**  
**September 30, 2016**  
**(Expressed in Canadian dollars)**

**6. INTANGIBLE ASSETS**

Cost	License Rights <sup>(a)</sup>	STAR-MMI Technology and Patents <sup>(b)</sup>	Website Costs	GUI System	STAR-ISMS ® and Peripherals	Total
Balance at June 30, 2016	\$ 136,146	\$ 908,726	\$ 25,037	\$ 264,810	\$ 619,498	\$ 1,954,217
Additions	-	-	-	-	-	-
<b>Balance at Sept 30, 2016</b>	<b>\$ 136,146</b>	<b>\$ 908,726</b>	<b>\$ 25,037</b>	<b>\$ 264,810</b>	<b>\$ 619,498</b>	<b>\$ 1,954,217</b>
Accumulated Amortization and Impairment						
Balance at June 30, 2016	\$ 133,284	\$ 908,726	\$ 25,037	\$ 264,810	\$ 593,249	\$ 1,925,106
Amortization for period	250	-	-	-	4,376	4,626
<b>Balance at Sept 30, 2016</b>	<b>\$ 133,534</b>	<b>\$ 908,726</b>	<b>\$ 25,037</b>	<b>\$ 264,810</b>	<b>\$ 597,625</b>	<b>\$ 1,929,732</b>
Carrying Amounts						
As at June 30, 2016	\$ 2,862	\$ -	-	\$ -	\$ 26,249	\$ 29,111
<b>As at Sept 30, 2016</b>	<b>\$ 2,612</b>	<b>\$ -</b>	<b>-</b>	<b>\$ -</b>	<b>\$ 21,873</b>	<b>\$ 24,485</b>

- (a) 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 19). The Company owns the exclusive, worldwide license for the lifetime of the patents.
- (b) During the year ended June 30, 2016, the Company recognized an impairment loss of \$616,634 on the STAR-MMI technology and patents acquired as part of an asset acquisition on April 1, 2014 and \$264,810 on the GUI system. The impairment loss on the STAR-MMI technology and patents was recognized as a result of the decrease in sales of STAR-MMI related revenue and the reduction in the client base which resulted in the Company relying on one customer for its STAR-MMI revenue stream. The impairment loss on the GUI system was recognized as a result of the asset not meeting management's expectations in generating the expected future benefits.

**Star Navigation Systems Group Ltd.**  
**Notes to Unaudited Condensed Interim Consolidated Financial Statements**  
**September 30, 2016**  
**(Expressed in Canadian dollars)**

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**7. PREPAID EXPENSE AND SUNDRY RECEIVABLES**

Prepaid expense includes contracts paid in advance by the Company, which as at Sept 30, 2016 amounted to \$4,425 (June 30, 2016 - \$4,425). Sundry receivable includes an amount due from the Government of Canada in relation to Harmonized Sales Tax refunds, which as at June 30, 2016 amounted to \$68,003 (June 30, 2016 - \$75,348).

**8. INVENTORY**

Inventory related to STAR-ISMS® amounted to \$100,340 at Sept 30, 2016 (June 30, 2016 – \$100,340 which is net of an impairment of \$110,318). Inventory related to STAR-MMI amounted to \$45,924 at Sept 30, 2016 (June 30, 2016 – \$53,907 which is net of an impairment of \$88,195). The impairment recorded for both the STAR-ISMS® and STAR-MMI inventory was to reflect the net realizable value as at June 30, 2016.

**9. BANK INDEBTEDNESS**

The Company has an overdraft protection limit of \$50,000.

**10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>Sept 30, 2016</b>	June 30, 2016
Trade payables	<b>\$ 472,066</b>	\$ 448,918
Accrued liabilities and other <sup>(a)</sup>	<b>534,295</b>	495,254
	<b>\$ 1,006,361</b>	\$ 944,172

(a) Included in accrued liabilities and other are payroll remittance arrears owing to the Canada Revenue Agency (“CRA”) totaling \$413,125 (June 30, 2016 - \$358,054).

**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**  
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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   |

**Share Capital Activity**

- (a) On August 18, 2015, the Company closed the final tranche of a 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. Included in the total Units issued as part of this non-brokered private placement are 730,000 Units issued to settle \$36,500 worth of trade payable and 770,000 Units issued to settle \$38,500 of related party loans, no gain or loss was recognized as a result of these settlements. In addition, included in the total Units issued as part of this non-brokered private placement are 1,356,000 Units issued for investor relations services of \$67,800 which includes HST of \$7,800.

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 of 128,000 Units valued at \$6,400.

- (d) On April 13, 2016, the Company closed a non-brokered private placement, having issued 31,801,333 units of the Company (the "Units") at a price per Unit of \$0.03 for gross proceeds of \$954,040. Each Unit consists of one common share in the capital of the Company and one warrant. Each of the warrants acquired entitles the holder to purchase one additional common share of the Corporation at seven (\$0.07) cents per warrant exercised. The warrants are exercisable during the three year period from the date of issue. Included in the total Units issued as part of this non-brokered private placement are 7,325,000 Units issued to settle \$219,750 worth of trade payable and 3,783,833 Units issued to settle \$113,515 of related party loans, no gain or loss was recognized as a result of these settlements. In addition, included in the total Units issued as part of this non-brokered private placement are 2,700,000 Units issued for investor relations services of \$81,000.

In addition, Star has agreed to pay finder's fees in the amount of 1,667,580 Units valued at \$83,379.

**Star Navigation Systems Group Ltd.**  
**Notes to Unaudited Condensed Interim Consolidated Financial Statements**  
**September 30, 2016**  
**(Expressed in Canadian dollars)**

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**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.

<b>Stock Option Transactions</b>	<b>Number</b>	<b>Exercise Price</b>	<b>W.A Exercise Price</b>
<b>Balance at June 30, 2015</b>	<b>9,522,900</b>		<b>\$0.13</b>
Options issued	3,970,000	\$0.05	\$0.05
Options expired	(1,970,000)	\$0.07-\$0.32	\$0.15
Options forfeited	(850,000)	\$0.05-\$0.15	\$0.10
<b>Balance at June 30, 2016</b>	<b>10,672,900</b>		<b>\$0.10</b>
Options issued	-		-
Options expired	-		-
Options forfeited	-		-
<b>Balance at Sept 30, 2016</b>	<b>10,672,900</b>		<b>\$0.10</b>
<b>Exercisable at Sept 30, 2016</b>	<b>7,077,900</b>		<b>\$0.13</b>

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

	<b>Sept 30, 2016</b>	June 30, 2016 (Audited)
Expected dividend yield	-	Nil
Risk free interest rate	-	0.71%
Expected volatility	-	77%
Expected life	-	5.0 years
Share price	-	\$0.03

Expected volatility is based on historical data.

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

**Stock-Based Compensation (Cont'd)**

As at Sept 30, 2016 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>
May 31, 2011	50,000	50,000	\$0.07	May 31, 2018
June 6, 2012	400,000	400,000	\$0.15-\$0.20	August 22, 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	1,775,000	1,775,000	\$0.10-\$0.12	October 20, 2016
January 30, 2014	25,000	25,000	\$0.07	December 15, 2018
March 3, 2014	300,000	300,000	\$0.06-\$0.12	March 30, 2017
May 10, 2014	100,000	100,000	\$0.07	May 10, 2017
Nov 26, 2014	300,000	300,000	\$0.10	Nov 26, 2016
March 31, 2016	1,400,000	275,000	\$0.05	March 1, 2021
March 31, 2016	2,470,000	-	\$0.05	March 1, 2021
	<b>10,672,900</b>	<b>7,077,900</b>		

The weighted average remaining contractual life of the outstanding options is 1.97 years.

**Warrants**

	<b>Number</b>	<b>Weighted-Average Exercise Price</b>	<b>Expiry Date</b>
<b>Balance at June 30, 2015</b>	<b>142,672,051</b>	<b>\$0.14</b>	
Issued	38,836,913	\$0.07	July 25, 2017- April 15, 2019
Expired	(15,668,993)	\$0.19	September 15, 2015- May 5, 2016
<b>Balance at June 30, 2016</b>	<b>165,839,971</b>	<b>\$0.12</b>	
Issued	-	-	
Expired	-	-	
<b>Balance at Sept 30, 2016</b>	<b>165,839,971</b>	<b>\$0.12</b>	

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

**Warrants**

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

	<b>Sept 30, 2016</b>	June 30, 2016 (Audited)
Expected dividend yield	-	Nil
Risk free interest rate	-	0.42%-0.58%
Expected volatility	-	71%-83%
Expected life	-	2-3 years
Share price	-	\$0.03-\$0.04

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 Sept 30, 2016.

**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.

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

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 5% change in the foreign exchange rate would have a \$500 impact on foreign exchange.

As at Sept 30, 2016 the Company held \$45,520 (June 30, 2016 - \$2,424) of cash in US dollars, as well the Company had \$4,100 (June 30, 2016 - \$4,100) in accounts receivable that are in US dollars. As at Sept 30, 2016 the Company had \$56,074 (June 30, 2016 - \$60,102) in accounts payable and accrued liabilities that are in US dollars. A 5% change in the foreign exchange rate would have a \$1,150 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, loan payable 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 Sept 30, 2016, approximately \$4,100 (June 30, 2016 - \$4,100) 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 Sept 30, 2016, the Company has current liabilities of \$2,474,219 (June 30, 2016 - \$2,104,363) due within 12 months and has a bank indebtedness balance of \$105,149 (June 30, 2016 - \$59,464). As at Sept 30, 2016 the Company has working capital deficiency of \$2,250,628 (June 30, 2016 - \$1,866,243) and accordingly, the Company is subject to significant 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 was due on November 18, 2015. A total of \$11,000 in legal fees, commitment fees and lender's fees and interest of \$9,000 was due with the principal. The Company could have repaid the principal and interest, legal fees, commitment fees and lender's fees (the "fees") early without penalty. The effective interest rate applicable to this loan was 25%. This loan is unsecured. As the principal and all accrued fees are not paid by the maturity 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 Sept 30, 2016 was \$57,436.

**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	2017	2018	2019	2020	2021	Total
Premises	\$144,000	\$144,000	\$144,000	\$ -	\$ -	\$432,000
Equipment	\$ 13,383	\$ -	\$ -	\$ -	\$ -	\$ 13,383

- (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 of any STAR-ISMS® units 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. 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 amounts for repayment 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 (Note 17(b)).

The Company had an employment agreement in place with its CEO and Chairman of the Board regarding voluntary salary forgiveness for the year ended June 30, 2016. In lieu of salary for the year ended June 30, 2016, the CEO received compensation based on ten-percent of total revenue related to repairs and maintenance of STAR-MMI which amounted to \$44,801.

During the year ended June 30, 2016, the Company settled a \$21,700 payable to a vendor in exchange for 434,000 issued and outstanding common shares of the Company. These common shares were held by a third party who agreed to transfer their shares in exchange for a personal guarantee from the CEO to repay the third party. As at June 30, 2016, the \$21,700 is included in the interest bearing component of the amount due to CEO (prime + 2% per annum).

During the year ended June 30, 2016, the Company settled a \$20,000 payable to a vendor in exchange for 400,000 issued and outstanding common shares of the Company that were held by the CEO. The Company has the option to repay the CEO with 400,000 common shares of the Company or in cash. As at June 30, 2016, the \$20,000 is included in the interest bearing component of the amount due to CEO (prime + 2% per annum).

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

The amount due to related parties as of Sept 30, 2016 is \$2,159,811 (June 30, 2016 - \$1,949,364) and is comprised of the following:

	<b>Sept 30, 2016</b>	June 30, 2016 (Audited)
Due to Directors	<b>\$ 127,000</b>	\$ 115,396
Due to Committee Chairpersons	<b>38,845</b>	26,000
Due to Chief Executive Officer <sup>(a)</sup>	<b>1,834,125</b>	1,670,012
Due to Chief Operating Officer	<b>143,567</b>	126,677
Due to Chief Financial Officer	<b>16,274</b>	11,279
<b>Total at September 30, 2016</b>	<b>\$2,159,811</b>	\$1,949,364

- (a) \$1,581,420 of the balance bears interest at prime + 2% per annum; \$22,705 of the balance bears no interest; and \$230,000 of the balance bears interest at 8% per annum. All amounts are unsecured and have no fixed terms of repayment other than the \$230,000, which is due June 10, 2017.

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 voluntarily waived his right to demand repayment on the long-term amounts due to him by the Company prior to June 30, 2017. Of the \$1,581,420 balance, the CEO has waived his right to demand repayment of \$1,325,369 of the balance prior to June 30, 2017. The agreement provides that up to \$180,000 could be paid towards the short-term portion of the loan within the fiscal year 2017. The balance will be paid subsequent to fiscal 2017. As at June 30, 2016, the balance drawn on this loan is \$230,000 and is included in the current portion of due to related parties.

The Company also owes \$22,705 (June 30, 2016 - \$23,403) in credit card debt that is guaranteed by the CEO and Chairman of the Board in accounts payables and accrued liabilities.

As part of the private placement that closed on August 15, 2015, 690,000 Units were issued to the CEO for settlement of \$34,500 and 80,000 Units were issued to the CFO for settlement of \$4,000. As part of the private placement that closed on April 13, 2016, 2,050,000 Units were issued to the CEO for settlement of \$61,515, 733,333 Units were issued to the CFO for settlement of \$22,000 and 1,000,000 Units were issued to the COO for settlement of \$30,000.

Key management personnel cost included in the unaudited condensed interim consolidated statement of comprehensive loss as of Sept 30, 2016 is \$178,832 (2015 - \$140,049). This amount in general and administrative expense represents fees paid and accrued to directors and officers of the Company:

	<b>2016</b>	2015
Chief Executive Officer	<b>\$ 70,500</b>	\$ 13,721
Chief Operating Officer	<b>46,500</b>	42,000
Chief Financial Officer	<b>14,420</b>	21,000
Board of Director fees	<b>18,000</b>	24,000
Committee Chairperson fees	<b>9,299</b>	15,299
Interest on loan to Chief Executive Officer	<b>20,113</b>	24,029
<b>Total for the period</b>	<b>\$ 178,832</b>	\$ 140,049

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**19. SIGNIFICANT CUSTOMER**

During the period ended Sept 30, 2016, 100% (Sept 30, 2015 – 96%) of the revenue was generated from one customer. During the period ended Sept 30, 2016, 100% (Sept 30, 2015 – 98%) of the revenue recognized during the year was generated from customers located in the United States. During the period ended Sept 30, 2016, 100% (Sept 30, 2015 – 96%) of revenue earned is from repairs and maintenance services on STAR-MMI flat panel displays units.

**20. EXPENSE DISCLOSURES**

General and Administrative	2016	2015
Accounting fees	\$14,420	\$21,000
Bank charges & interest	2,425	1,334
Board and Committee fees	27,299	39,299
Insurance	23,949	24,745
Other	12,125	26,367
Rent	51,090	39,350
Wages	126,232	80,132
Total G&A expenses	\$257,540	\$232,227
Research and Development:	2016	2015
Amortization expense	\$15,844	\$82,691
IT costs	5,250	5,250
R&D costs	823	3,802
Wages	157,991	209,952
Total R&D expenses	\$179,908	\$301,695
Marketing and Promotion	2016	2015
Consultant costs	\$26,500	\$37,607
Investor relations	-	30,000
Wages	-	28,750
Travel costs	-	25,502
Total M&P expenses	\$26,500	\$121,859

**21. SUBSEQUENT EVENTS**

On November 16, 2016, the Company was advised by one of its directors, Mr. Pierre Jeannot, that he was unfortunately obliged to resign as a director for health reasons. In addition to his service as a director, Mr. Jeannot also served for several years on the Company's Strategic Advisory Committee. His extensive experience in the aviation world and his wise counsel will be missed. A future return to the Board is possible.

A Cease Trade Order ("CTO") was issued by the Ontario Securities Commission on November 3, 2016 for delayed filing of periodic disclosure documents. The documents were subsequently filed by the Company and the CTO was revoked November 7, 2016.

In October, 2016, the Company, amongst others, was served with a Statement of Claim with respect to assets purchased from Luxell Quebec Technologies Inc. in 2014. The Company views the allegations in the Statement of Claim as being without foundation or basis in fact and has filed a Statement of Defense in the matter.