Star Navigation Systems Group Ltd.

Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three and six month periods ended December 31, 2016 and December 31, 2015

(Expressed in Canadian dollars)

NOTICE TO READER

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
March 1, 2017

Star Navigation Systems Group Ltd.
Unaudited Condensed Interim Consolidated Statements of Financial Position
As at December 31, 2016
(Expressed in Canadian dollars)

	Dec 31, 2016	June 30, 2016 (Audited)
Assets		
Current		
Accounts receivable	$ **4,899**	$ 4,100
Inventory (Note 8)	**141,516**	154,247
Prepaid expenses and sundry receivables (Note 7)	**67,043**	79,773
	213,458	238,120
Property and equipment (Note 5)	**102,315**	124,752
Intangible assets (Note 6)	**19,859**	29,111
	$ **335,632**	$ 391,983
Liabilities		
Current		
Bank indebtedness (Note 9)	$ **156,887**	$ 59,464
Accounts payable and accrued liabilities (Note 10)	**1,113,137**	944,172
Current portion of finance lease obligation	**-**	8,523
Other payables (Note 11)	**266,000**	196,000
Loan payable (Note 16)	**269,294**	246,102
Current portion of due to related parties (Note 18)	**1,093,160**	623,995
Deferred revenue	**61,253**	26,107
	2,959,731	2,104,363
Due to related parties (Note 18)	**1,325,369**	1,325,369
	4,285,100	3,429,732
Shareholders' Equity (Deficiency)		
Share capital (Note 12)	**34,078,277**	34,078,277
Contributed surplus (Note 13)	**15,505,757**	15,469,792
Deficit	**(53,533,502)**	(52,585,818)
	(3,949,468)	(3,037,749)
	$ **335,632**	$ 391,983

Nature of Operations and Going Concern (Note 1)

Commitments and Contingencies (Note 17)

Approved by the Board ***"Viraf S. Kapadia"*** ***"Gus Nariman"***

Director *(Signed)* ***Director*** *(Signed)*

Star Navigation Systems Group Ltd.

Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
Periods Ended December 31, 2016 and December 31, 2015
(Expressed in Canadian dollars)

	Three months ended, December 31		Six months ended, December 31	
	2016	2015	**2016**	2015
Revenue (Note 19)	**$ 52,601**	$ 304,458	**$ 169,331**	$ 416,163
Expenses				
Cost of inventory consumed	**14,176**	101,260	**31,301**	156,791
Foreign exchange	**(23)**	(258)	**(225)**	(6,096)
General and administrative (Note 20)	**341,617**	277,381	**599,157**	509,601
Marketing and promotion (Note 20)	**27,082**	45,580	**53,582**	167,439
Research and development (Note 20)	**168,010**	232,783	**347,918**	534,477
Stock based compensation (Note 13)	**-**	-	**35,965**	474
	550,862	656,746	**1,067,698**	1,362,686
Loss from operations	**(498,261)**	(352,288)	**(898,367)**	(946,523)
Other Income (Expenses)				
Gain on settlement of debt	**24,500**	-	**24,500**	-
Interest expense (Notes 11 & 18)	**(37,729)**	(27,031)	**(73,817)**	(51,060)
Net Loss and Comprehensive Loss for the period	**$ (511,490)**	$ (379,319)	**$ (947,684)**	$ (997,583)
Basic and diluted loss per common share	**$ (0.001)**	$ (0.001)	**$ (0.002)**	$ (0.003)
Weighted average number of common shares outstanding	**390,894,805**	354,100,066	**390,894,805**	355,762,979

Star Navigation Systems Group Ltd.
Unaudited Condensed Interim Consolidated Statements of Changes in Deficiency
Periods Ended December 31, 2016 and December 31, 2015
(Expressed in Canadian dollars)

	Number of common shares	Number of Series I preferred shares	Share capital	Contributed surplus	Deficit	Total
Balance at June 30, 2015	**352,057,892**	**615,000**	**$33,138,534**	**$14,723,831**	**$(48,689,186)**	**$(826,821)**
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)**
Balance at December 31, 2015	**357,425,892**	**615,000**	**$33,355,630**	**$14,767,867**	**$(49,686,769)**	**$(1,563,272)**
Balance at June 30, 2016	**390,894,805**	**615,000**	**$34,078,277**	**$15,469,792**	**$(52,585,818)**	**$(3,037,749)**
Stock-based compensation (Note 13)	-	-	-	35,965	-	**35,965**
Loss for the period	-	-	-	-	(947,684)	**(947,684)**
Balance at December 31, 2016	**390,894,805**	**615,000**	**$34,078,277**	**$15,505,757**	**$(53,533,502)**	**$(3,949,468)**

Star Navigation Systems Group Ltd.
Unaudited Condensed Interim Consolidated Statements of Cash Flows
Periods Ended December 31, 2016 and December 31, 2015
(Expressed in Canadian dollars)

	Three months ended, December 31		Six months ended, December 31	
	2016	2015	**2016**	2015
Cash provided by (used in)				
Operations				
Net loss	**$ (511,490)**	$ (379,319)	**$ (947,684)**	$ (997,583)
Items not affecting cash				
Depreciation	**11,219**	82,690	**22,437**	165,380
Amortization of intangible assets	**4,626**	-	**9,252**	-
Stock-based compensation	**-**	-	**35,965**	474
	(495,645)	(296,629)	**(880,030)**	(831,729)
Net changes in non-cash working capital				
Accounts receivable	**-**	(20,034)	**(799)**	30,826
Inventory	**4,748**	65,162	**12,731**	58,394
Prepaid expenses and sundry receivables	**5,385**	48,869	**12,730**	123,966
Accounts payable and accrued liabilities	**106,776**	34,839	**168,965**	41,205
Deferred revenue	**(13,578)**	-	**35,146**	-
Due to related parties	**258,718**	114,955	**469,165**	171,494
	(133,596)	(53,018)	**(182,092)**	(405,844)
Financing				
Repayment of finance lease obligation	**-**	(19,610)	**(8,523)**	(38,262)
Loan payable	**81,858**	5,060	**93,192**	5,060
Deposit on share subscription	**-**	(87,500)	**-**	207,500
Issuance of common shares (net of share issuance costs)	**-**	-	**-**	260,658
	81,858	72,950	**84,669**	434,956
Net change in bank indebtedness	**(51,738)**	19,932	**(97,423)**	29,112
Bank indebtedness, beginning of period	**(105,149)**	(34,110)	**(59,464)**	(43,290)
Bank indebtedness, end of period	**$ (156,887)**	$ (14,178)	**$ (156,887)**	$ (17,178)
Supplemental Disclosure				
Interest paid	**$ 37,729**	$ 27,031	**$ 73,817**	$ 51,060

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 $511,490 for the period ended December 31, 2016 (2015 – $379,319), has an accumulated deficit of $53,533,502 (June 30, 2016 - $52,585,818) and has negative working capital of $2,746,273 (June 30, 2016 – $1,866,243). During the period ended December 31, 2016, the Company had one customer in which 93% 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 March 1, 2017.

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 December 31, 2016, $156,091 (2015 - $407,029) 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.

(Expressed in Canadian dollars)

5. PROPERTY AND EQUIPMENT

	Furniture and Equipment	Computer Equipment and Software	Computer Equipment under Finance Lease	**Total**
Cost				
Balance at June 30, 2016	$ 275,630	$ 151,422	$ 318,795	$ 745,847
Additions	-	-	-	**-**
Balance at December 31, 2016	**$ 275,630**	**$ 151,422**	**$ 318,795**	**$ 745,847**
Accumulated Depreciation				
Balance at June 30, 2016	$ 196,359	$ 149,033	$ 275,703	$ 621,095
Amortization for the period	11,066	598	10,773	22,437
Balance at December 31, 2016	**$ 207,425**	**$ 149,631**	**$ 286,476**	**$ 643,532**
Carrying Amounts				
As at June 30, 2016	$ 79,271	$ 2,389	$ 43,092	$ 124,752
As at December 31, 2016	**$ 68,205**	**$ 1,791**	**$ 32,319**	**$ 102,315**

(Expressed in Canadian dollars)

6. INTANGIBLE ASSETS

Cost	License Rights [a]	STAR-MMI Technology and Patents[b]	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	-	-	-	-	-	-
Balance at December 31, 2016	**$ 136,146**	**$ 908,726**	**$ 25,037**	**$ 264,810**	**$ 619,498**	**$ 1,954,217**
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	500	-	-	-	8,752	9,252
Balance at December 31, 2016	**$ 133,784**	**$ 908,726**	**$ 25,037**	**$ 264,810**	**$ 602,001**	**$ 1,934,358**
Carrying Amounts						
As at June 30, 2016	$ 2,862	$ -	-	$ -	$ 26,249	$ 29,111
As at December 31, 2016	**$ 2,362**	**$ -**	**-**	**$ -**	**$ 17,497**	**$ 19,859**

(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.

(Expressed in Canadian dollars)

7. PREPAID EXPENSE AND SUNDRY RECEIVABLES

Prepaid expense includes contracts paid in advance by the Company, which as at December 31, 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 $62,618 (June 30, 2016 - $75,348).

8. INVENTORY

Inventory related to STAR-ISMS® amounted to $100,340 at December 31, 2016 (June 30, 2016 – $100,340 which is net of an impairment of $110,318). Inventory related to STAR-MMI amounted to $41,176 at December 31, 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

	December 31, 2016	June 30, 2016
Trade payables	**$ 575,607**	$ 448,918
Accrued liabilities and other [(a)]	**537,530**	495,254
	$ 1,113,137	$ 944,172

(a) Included in accrued liabilities and other are payroll remittance arrears owing to the Canada Revenue Agency (“CRA”) totaling $457,675 (June 30, 2016 - $358,054).

11. OTHER PAYABLES

Other payables include amounts due to a former employee of the Company with respect to unpaid compensation, and a current employee regarding a short-term loan. Both are unsecured, non-interest bearing with no fixed terms of repayment.

(Expressed in Canadian dollars)

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.

(Expressed in Canadian dollars)

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.

Stock Option Transactions	Number	Exercise Price	W.A Exercise Price
Balance at June 30, 2015	**9,522,900**		**$0.13**
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
Balance at June 30, 2016	**10,672,900**		**$0.10**
Options issued	1,620,000	$0.05	$0.05
Options expired	(2,395,000)	$0.10-$0.20	$0.13
Balance at December 31, 2016	**9,897,900**		**$0.08**
Exercisable at December 31, 2016	**8,002,900**		**$0.09**

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

	December 31, 2016	June 30, 2016 (Audited)
Expected dividend yield	**Nil**	Nil
Risk free interest rate	**.74%**	0.71%
Expected volatility	**91%**	77%
Expected life	**5.0 years**	5.0 years
Share price	**$0.03**	$0.03

Expected volatility is based on historical data.

(Expressed in Canadian dollars)

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

Stock-Based Compensation (Cont'd)

As at December 31, 2016 the Company had stock options issued to directors, officers, employees and key consultants of the Company outstanding as follows:

Date of Grant	Options Granted	Options Exercisable	Exercise Price	Expiry Date
May 31, 2011	50,000	50,000	$0.07	May 31, 2018
June 6, 2012	200,000	400,000	$0.15-$0.20	August 22, 2016-February 17, 2018
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
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
March 31, 2016	3,870,000	3,595,000	$0.05	March 1, 2021
October 21, 2016	1,620,000	-	$0.05	March 1, 2021
	9,897,900	**8,002,900**		

The weighted average remaining contractual life of the outstanding options is 2.45 years.

Warrants

	Number	Weighted-Average Exercise Price	Expiry Date
Balance at June 30, 2015	**142,672,051**	**$0.14**	
Issued	38,836,913	$0.07	July 25, 2017-April 15, 2019
Expired	(15,668,993)	$0.19	September 15, 2015-May 5, 2016
Balance at June 30, 2016	**165,839,971**	**$0.12**	
Expired	(16,500,000)	$0.06	November 17, 2016
Balance at December 31, 2016	**149,339,971**	**$0.11**	

(Expressed in Canadian dollars)

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.

	December 31, 2016	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 December 31, 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 December 31, 2016 the Company held $45,520 (June 30, 2016 - $2,424) of cash in US dollars, as well the Company had $4,899 (June 30, 2016 - $4,100) in accounts receivable that are in US dollars. As at December 31, 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 December 31, 2016, approximately $4,899 (June 30, 2016 - $4,100) of the Company's receivables were past due the average credit period of 90 days.

(Expressed in Canadian dollars)

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 December 31, 2016, the Company has current liabilities of $2,959,731 (June 30, 2016 - $2,104,363) due within 12 months and has a bank indebtedness balance of $156,887 (June 30, 2016 - $59,464). As at December 31, 2016 the Company has working capital deficiency of $2,746,273 (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 December 31, 2016 was $69,294.

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 Office 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. For fiscal 2017 the CEO is back to a regular salary which is 100% accrued.

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).

(Expressed in Canadian dollars)

18. RELATED PARTY TRANSACTIONS (Cont'd)

The amount due to related parties at December 31, 2016 is $2,418,529 (June 30, 2016 - $1,949,364) and is comprised of the following:

	December 31, 2016	June 30, 2016 (Audited)
Due to Directors	**$ 152,000**	$ 115,396
Due to Committee Chairpersons	**43,570**	26,000
Due to Chief Executive Officer [(a)]	**1,996,444**	1,670,012
Due to Chief Operating Officer	**177,652**	126,677
Due to Chief Financial Officer	**48,863**	11,279
Total at December 31, 2016	**$2,418,529**	$1,949,364

(a) $1,739,850 of the balance bears interest at prime + 2% per annum; $26,594 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 $1,996,444 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 $26,594 (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 December 31, 2016 is $368,555 (2015 - $293,712). This amount in general and administrative expense represents fees paid and accrued to directors and officers of the Company:

	2016	2015
Chief Executive Officer	**$ 141,000**	$ 46,716
Chief Operating Officer	**93,000**	92,000
Chief Financial Officer	**43,260**	42,000
Board of Director fees	**33,000**	46,000
Committee Chairperson fees	**16,947**	28,599
Interest on loan to Chief Executive Officer	**41,348**	38,397
Total for the period	**$ 368,555**	$ 293,712

(Expressed in Canadian dollars)

19. SIGNIFICANT CUSTOMER

During the period ended December 31, 2016, 93% (December 31, 2015 – 97%) of the revenue was generated from one customer. During the period ended December 31, 2016, 93% (December 31, 2015 – 93%) of the revenue recognized during the year was generated from customers located in the United States. During the period ended December 31, 2016, 93% (December 31, 2015 – 91%) 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	**$43,260**	$42,000
Bank charges & interest	**5,497**	6,367
Board and Committee fees	**49,947**	74,599
Insurance	**48,289**	61,524
Other	**36,207**	53,874
Professional fees	**33,941**	11,896
Rent	**101,050**	80,214
Wages	**280,966**	179,127
Total G&A expenses	**$599,157**	$509,601

Research and Development:	**2016**	2015
Amortization expense	**31,688**	$82,691
IT costs	**10,500**	5,250
R&D costs	**14,170**	12,517
Travel costs	**-**	7,501
Wages	**291,560**	337,679
Total R&D expenses	**$347,918**	$534,477

Marketing and Promotion	**2016**	2015
Consultant costs	**$47,500**	$ 60,107
Investor relations	**-**	45,000
Wages	**-**	28,750
Travel costs	**6,082**	33,582
Total M&P expenses	**$53,582**	$167,439