

Star Navigation Systems Group Ltd.

**Interim Condensed Consolidated Financial
Statements**

(Unaudited – Prepared by Management)

**For the three and six months ended December
31, 2017 and December 31, 2016**

(Expressed in Canadian dollars)

NOTICE TO READER

The accompanying interim condensed consolidated financial statements are unaudited and 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, 2018

Star Navigation Systems Group Ltd.
Interim Condensed Consolidated Statements of Financial Position
As at December 31, 2017 and June 30, 2017
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

	December 31, 2017 (Unaudited)	June 30, 2017 (Audited)
Assets		
Current		
Cash (Note 8)	\$ 139,293	\$ 141,891
Accounts receivable	6,727	74,085
Inventory (Note 7)	153,874	153,874
Prepaid expenses and sundry receivable (Note 6)	97,721	45,946
	397,615	415,796
Property and equipment (Note 4)	59,878	79,879
Intangible assets (Note 5)	1,361	10,607
	\$ 458,854	\$ 506,282
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 9)	\$ 406,073	\$ 1,313,862
Other payables (Note 10)	196,000	196,000
Loans payable (Note 15)	-	810,005
Deferred revenue	215,260	134,542
Subscription proceeds received in advance (Note 16)	296,200	-
Due to related parties (Note 17)	1,738,578	2,565,243
	2,852,111	5,019,652
Deficiency		
Share capital (Note 11)	38,254,165	34,605,977
Contributed surplus (Note 12)	15,518,908	15,518,908
Deficit	(56,166,330)	(54,638,255)
	(2,393,257)	(4,513,370)
	\$ 458,854	\$ 506,282

Nature of Operations and Going Concern (Note 1)

Commitments and Contingencies (Note 18)

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

 "Gus Nariman"
Director (Signed)

Star Navigation Systems Group Ltd.
Interim Condensed Consolidated Statements of Loss and Comprehensive Loss
Three and six months ended December 31, 2017 and December 31, 2016
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

	Three months ended, December 31		Six months ended, December 31	
	2017	2016	2017	2016
Revenue (Note 19)	\$ -	\$ 52,601	\$ 4,520	\$ 169,331
Expenses				
Cost of inventory consumed	7,009	14,176	9,403	31,301
General and administrative (Note 20)	290,409	341,617	587,960	599,157
Research and development (Note 20)	201,601	168,010	532,991	347,918
Marketing and promotion (Note 20)	95,094	27,082	363,022	53,582
Foreign exchange loss (gain)	(1,907)	(23)	(1,400)	(225)
Stock based compensation (Note 12)	-	-	-	35,965
	592,206	550,862	1,491,976	1,067,698
Loss from Operations	(592,206)	(498,261)	(1,487,456)	(898,367)
Other Income (Expenses)				
Recovery of funds advanced	-	24,500	-	24,500
Interest expense (Note 15 & 17)	(21,366)	(37,729)	(40,619)	(73,817)
Net Loss and Comprehensive Loss for the year	\$ (613,572)	\$ (511,490)	\$ (1,528,075)	\$ (947,684)
Basic and diluted loss per common share	\$(0.001)	\$ (0.001)	\$ (0.003)	\$ (0.002)
Weighted average number of common shares outstanding	443,393,196	390,894,805	434,165,537	390,894,805

Star Navigation Systems Group Ltd.
Interim Condensed Consolidated Statements of Changes in Deficiency
Six Months Ended December 31, 2017 and December 31, 2016
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

	Number of common shares	Number of Series I preferred shares	Share capital	Contributed surplus	Deficit	Total
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 12)	-	-	-	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)
Balance at June 30, 2017	399,689,805	615,000	\$34,605,977	\$15,518,908	\$(54,638,255)	\$(4,513,370)
Issued for cash on shares for debt exercise (Note 11)	27,333,615	-	2,186,690	-	-	2,186,690
Issued for cash on options exercised (Note 11)	3,898,000	-	261,900	-	-	261,900
Issued for cash on warrants exercised (Note 11)	13,514,004	-	1,199,598	-	-	1,199,598
Loss for the period	-	-	-	-	(1,528,075)	(1,528,075)
Balance at December 31, 2017	444,435,424	615,000	\$38,254,165	\$15,518,908	\$(56,166,330)	\$(2,393,257)

Star Navigation Systems Group Ltd.
Interim Condensed Consolidated Statements of Cash Flows
Three and six months ended December 31, 2017 and December 31, 2016
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

	Three months ended, December 31		Six months ended, December 31	
	2017	2016	2017	2016
Cash provided by (used in)				
Operations				
Net loss	\$ (613,572)	\$ (511,490)	\$ (1,528,075)	\$ (947,684)
Items not affecting cash				
Depreciation	13,045	11,219	24,871	22,437
Amortization of intangible assets	4,620	4,626	9,246	9,252
Stock-based compensation	-	-	-	35,965
	(595,907)	(495,645)	(1,493,958)	(880,030)
Net changes in non-cash working capital				
Accounts receivable	25,820	-	67,358	(799)
Inventory	-	4,748	-	12,731
Prepaid expenses and sundry receivables	(26,730)	5,385	(51,775)	12,730
Accounts payable and accrued liabilities	(171,772)	106,776	(264,285)	168,965
Deferred revenue	-	(13,578)	80,718	35,146
	(768,589)	(392,314)	(1,661,942)	(651,257)
Investing				
Purchase of property and equipment	-	-	(4,870)	-
Financing				
Repayment of finance lease obligation	-	-	-	(8,523)
Repayment of loans payable, net	-	81,858	-	93,192
Subscription proceeds rec'd in advance	296,200	-	296,200	-
Due to related parties, net	55,646	258,718	(93,484)	469,165
Proceeds from warrants exercised	127,000	-	1,199,598	-
Proceeds from options exercised	31,500	-	261,900	-
	510,346	340,576	1,664,214	553,834
Net change in cash	(258,243)	(51,738)	(2,598)	(97,423)
Cash (bank indebtedness), beginning of period	397,536	(105,149)	141,891	(59,464)
Cash (bank indebtedness), end of period	\$ 139,293	\$ (156,887)	\$ 139,293	\$ (156,887)
Supplemental Disclosure				
Interest paid	\$ 21,366	\$ 37,729	\$ 40,619	\$ 73,817
Shares issued for settlement of Accounts payables	-	-	\$ 643,504	-
Shares issued for settlement of Loans payable	-	-	\$ 810,005	-
Shares issued for settlement of related party loans	-	-	\$ 733,181	-

Star Navigation Systems Group Ltd.
Notes to the Interim Condensed Consolidated Financial Statements
December 31, 2017
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

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. The Company has been granted supplemental type certificates for use of the systems on a Boeing 737, 727, Airbus A321, A320, A340 and a Learjet 45.

The Company was incorporated by Certificate of Incorporation issued pursuant to the provisions of the Business Corporations Act (*Ontario*) in May 2000 and its registered address is located at 300-2970 Lakeshore Blvd W., Toronto, Ontario M8V 1J7. The Company is a public company listed on the Canadian Securities Exchange trading under the symbol of "SNA".

Going Concern

These consolidated financial statements have been prepared using accounting policies applicable to 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 as they become due. The Company incurred a net loss of \$1,528,075 for the period ended December 31, 2017 (December 31, 2016 – \$947,684), has an accumulated deficit of \$56,166,330 (June 30, 2017 - \$54,638,255) and has negative working capital of \$2,454,496 (June 30, 2017 – \$4,603,856). The Company is also in default of remitting payroll withholding taxes to the Canada Revenue Agency and is overdue on the payment of its trade payables. Whether and when the Company can attain profitability and positive cash flows from operations 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 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 as a going concern or be unable to realize its assets and discharge its liabilities in the normal course of operations. Such adjustments could be material.

2. BASIS OF PRESENTATION

(a) Statement of Compliance

These interim consolidated financial statements are unaudited and have been prepared on a condensed basis in accordance with the International Accounting Standard 34, Interim Financial Reporting, issued by the International Accounting Standards Board and interpretations of the International Financial Interpretations Committee using accounting policies consistent with International Financial Reporting Standards ("IFRS"). These interim consolidated financial statements for the three and six months ended December 31, 2017 and 2016 should be read together with the annual consolidated financial statements as at and for the year ended June 30, 2017. The same accounting policies and methods of computation were followed in the preparation of these interim consolidated financial statements as were followed in the preparation of and as described in note 3 of the annual consolidated financial statements as at and for the year ended June 30, 2017.

Star Navigation Systems Group Ltd.
Notes to the Interim Condensed Consolidated Financial Statements
December 31, 2017
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

2. BASIS OF PRESENTATION (Cont'd)

(b) Basis of Measurement

These consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments which are measured at fair value.

(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 Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned and controlled operating subsidiaries, Star Navigation Systems Inc. ("Star"), Star Navigation Systems (Quebec) Inc. and Star Navigation Systems (U.K) Ltd. Star Navigation Systems (Quebec) Inc. and Star Navigation Systems (U.K) Ltd. are inactive. The financial statements of its subsidiaries are included in the consolidated statements from the date that control commences until the date that control ceases. All significant inter-company transactions and balances have been eliminated on consolidation. All references to the Company should be treated as references to the Company and its subsidiaries.

(e) Critical Accounting Estimates, Judgments, and Assumptions

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these judgments, estimates and assumptions could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The significant areas of estimation uncertainty and judgement considered by management in preparing the interim consolidated financial statements were the same as those in the annual financial statements for the year ended June 30, 2017.

3. RECENT ACCOUNTING PRONOUNCEMENTS ISSUED AND NOT YET APPLIED

IFRS accounting standards, interpretations and amendments to existing IFRS accounting standards that were not yet effective as at June 30, 2017 are described in Note 4 to the annual consolidated financial statements as at and for the year ended June 30, 2017. The Company is currently assessing what impact the application of those standards or amendments will have on the interim condensed consolidated financial statements of the Company. The Company intends to adopt these standards, if applicable, when these standards become effective. There have been no other changes to existing IFRS accounting standards and interpretations since June 30, 2017 that are expected to have a material effect on the Company's interim condensed consolidated financial statements.

Star Navigation Systems Group Ltd.
Notes to the Interim Condensed Consolidated Financial Statements
December 31, 2017
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

4. PROPERTY AND EQUIPMENT

	Leasehold Improvements	Furniture and Equipment	Computer Equipment and Software	Computer Equipment under Finance Lease	Total
Cost					
Balance at June 30, 2017	\$ 84,626	\$ 275,630	\$ 151,422	\$ 318,795	\$ 830,473
Additions	-	-	4,870	-	4,870
Balance at December 31, 2017	\$ 84,626	\$ 275,630	\$ 156,292	\$ 318,795	\$ 835,343
Accumulated Depreciation					
Balance at June 30, 2017	\$ 84,626	\$ 218,491	\$ 150,228	\$ 297,249	\$ 750,594
Amortization for the period	-	11,066	3,032	10,773	24,871
Balance at December 31, 2017	\$ 84,626	\$ 229,557	\$ 153,260	\$ 308,022	\$ 775,465
Carrying Amounts					
As at June 30, 2017	\$ -	\$ 57,139	\$ 1,194	\$ 21,546	\$ 79,879
As at December 31, 2017	\$ -	\$ 46,073	\$ 3,032	\$ 10,772	\$ 59,878

Star Navigation Systems Group Ltd.
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5. INTANGIBLE ASSETS

Cost	License Rights ^(a)	STAR-MMI Technology and Patents	Website Costs	GUI System	STAR-ISMS® and Peripherals	Total
Balance at June 30, 2017	\$ 136,146	\$ 908,726	\$ 25,037	\$ 264,810	\$ 619,498	\$ 1,954,217
Additions	-	-	-	-	-	-
Balance at December 31, 2017	\$ 136,146	\$ 908,726	\$ 25,037	\$ 264,810	\$ 619,498	\$ 1,954,217
Accumulated Amortization and Impairment						
Balance at June 30, 2017	\$ 134,284	\$ 908,726	\$ 25,037	\$ 264,810	\$ 610,753	\$ 1,943,610
Amortization for period	501	-	-	-	8,745	9,246
Balance at December 31, 2017	\$ 134,785	\$ 908,726	\$ 25,037	\$ 264,810	\$ 619,498	\$ 1,952,856
Carrying Amounts						
As at June 30, 2017	\$ 1,862	\$ -	\$ -	\$ -	\$ 8,745	\$ 10,607
As at December 31, 2017	\$ 1,361	\$ -	\$ -	\$ -	\$ -	\$ 1,361

- (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 17). The Company owns the exclusive, worldwide license for the lifetime of the patents.

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Notes to the Interim Condensed Consolidated Financial Statements
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6. PREPAID EXPENSE AND SUNDRY RECEIVABLE

Sundry receivable includes an amount due from the Government of Canada in relation to Harmonized Sales Tax refunds, which as at December 31, 2017 amounted to \$97,721 (June 30, 2017 - \$45,946).

7. INVENTORY

Inventory is comprised of the following:

	December 31, 2017 (Unaudited)	June 30, 2017 (Audited)
Finished goods – STAR-ISMS®	\$ 76,831	\$ 76,831
Parts and components – STAR-ISMS®	34,770	34,770
Parts and components – STAR-MMI	42,273	42,473
	\$ 153,874	\$ 153,874

8. CREDIT FACILITY

The Company utilizes a revolving line of credit (“LOC”) from The Toronto-Dominion Bank to provide working capital flexibility. The LOC is available up to a maximum of \$50,000, which has been fully utilized as at December 31, 2017 and June 30, 2017. The LOC is presented on a net basis in cash on the statement of financial position.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2017 (Unaudited)	June 30, 2017 (Audited)
Trade payables	\$ 205,639	\$ 664,847
Accrued liabilities ^(a)	200,434	649,015
	\$ 406,073	\$ 1,313,862

(a) Included in accrued liabilities and other are payroll remittance arrears owing to the Canada Revenue Agency (“CRA”) totaling \$135,726 (June 30, 2017 - \$430,830).

10. OTHER PAYABLES

Other payables include amounts due to a former employee of the Company with respect to unpaid compensation.

Star Navigation Systems Group Ltd.
Notes to the Interim Condensed Consolidated Financial Statements
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11. SHARE CAPITAL

Authorized

- 615,000 Series I First Preferred Shares, non-voting, entitled to non-cumulative dividends at a rate of 7% in priority to common shares, redeemable at \$1.00 at the option of the Company and have no par value.
- 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. These shares have no par value and are redeemable at \$1.00 per share at the option of the Company.
- Unlimited common shares, no par value.

Share Capital Activity

- (a) In June 2017, 8,795,000 warrants to purchase common shares of the Company were exercised at a price of \$0.06 per common share, resulting in proceeds to the Company of \$527,700.
- (b) In July-December 2017, 13,514,004 warrants to purchase common shares of the Company were exercised at prices of \$0.06-\$0.12 per common share, resulting in proceeds to the Company of \$1,199,598.
- (c) In July 2017, 27,333,615 common shares of the Company were issued at a price of \$0.08 per common share, resulting in proceeds to the Company of \$2,186,690 as part of a shares for debt exchange.
- (d) In July-December 2017, 3,898,000 options to purchase common shares of the Company were exercised at prices of \$0.05-\$0.10 per common share, resulting in proceeds to the Company of \$261,900.

Star Navigation Systems Group Ltd.
Notes to the Interim Condensed Consolidated Financial Statements
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(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

12. CONTRIBUTED SURPLUS, STOCK-BASED COMPENSATION AND WARRANTS

Stock-Based Compensation

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

Stock Option Transactions	Number	Exercise Price	Weighted Average Exercise Price
Balance at June 30, 2016	10,672,900		\$0.10
Options granted	1,620,000	\$0.05	\$0.05
Options expired	(2,795,000)	\$0.06-\$0.20	\$0.11
Balance at June 30, 2017	9,497,900		\$0.09
Options exercised	(2,998,000)	\$0.05	\$0.03
Options exercised	(100,000)	\$0.07	\$0.07
Options exercised	(300,000)	\$0.10	\$0.10
Options exercised	(500,000)	\$0.15	\$0.15
Balance at December 31, 2017	5,599,900		\$0.09
Exercisable at December 31, 2017	5,599,900		\$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, 2017 (Unaudited)	June 30, 2017 (Audited)
Expected dividend yield	-	Nil
Risk free interest rate	-	0.74%
Expected volatility	-	91%
Expected life	-	4.36 years
Share price	-	\$0.03

Expected volatility is based on the average historical volatility over the life of the option on the Company's share price.

Star Navigation Systems Group Ltd.
Notes to the Interim Condensed Consolidated Financial Statements
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(Unaudited – Prepared by Management)

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

Stock-Based Compensation (Cont'd)

As at December 31, 2017 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	200,000	\$0.15	February 17, 2018
January 15, 2013	1,062,900	1,062,900	\$0.15	January 14, 2018
February 15, 2013	1,550,000	1,550,000	\$0.07-\$0.15	February 14, 2018
January 30, 2014	25,000	25,000	\$0.07	December 15, 2018
March 31, 2016	1,092,000	1,092,000	\$0.05	March 1, 2021
October 21, 2016	1,620,000	1,620,000	\$0.05	March 1, 2021
	5,599,900	5,599,900		

The weighted average remaining contractual life of the outstanding options is 1.45 years (June 30, 2017 – 1.96 years).

Warrants

	Number	Weighted-Average Exercise Price	Expiry Date
Balance at June 30, 2016	165,839,971	\$0.12	
Exercised	(8,795,000)	\$0.06	September 11, 2017
Expired	(31,700,000)	\$0.09	November 17, 2016- February 27, 2017
Balance at June 30, 2017	125,344,971	\$0.09	
Exercised	(13,514,004)	\$0.03	July 25, 2017-April 15, 2019
Expired	(33,935,458)	\$0.12	July 25, 2017- September 17, 2017
Balance at December 31, 2017	77,895,509	\$0.01	

Star Navigation Systems Group Ltd.
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(Unaudited – Prepared by Management)

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

Stock-Based Compensation (Cont'd)

Warrants

As at December 31, 2017 the Company had warrants issued and outstanding as follows:

Date of Issue	Warrants Issued	Exercise Price	Expiry Date
May 15, 2013	10,030,000	\$0.09	May 15, 2018
October 18, 2013	11,250,000	\$0.08	October 18, 2018
April 15, 2014	23,146,596	\$0.08	April 15, 2019
April 15, 2016	33,468,913	\$0.07	April 15, 2019
	77,895,509		

Basic and diluted loss per common share based on net loss for the periods ended December 31:

Numerator:	2017	2016
Net loss for the period	\$(1,528,075)	\$(947,684)
Denominator:		
Weighted average number of common shares outstanding - basic	434,165,537	390,894,805
Weighted average effect of diluted stock options and warrants	-	-
Weighted average number of common shares outstanding - diluted	434,165,537	390,894,805
Loss per common share based on net loss for the period:		
Basic	\$ (0.003)	\$(0.002)
Diluted	\$ (0.003)	\$(0.002)

Maximum share dilution:

The following table presents the maximum number of shares that would be outstanding if all outstanding stock options and warrants were exercised as at December 31:

	December 31, 2017 (Unaudited)	June 30, 2017 (Audited)
Common shares outstanding	444,435,424	399,689,805
Warrants to purchase common shares	77,895,509	125,344,971
Stock options to purchase common shares	5,599,900	9,497,900
Fully diluted common shares outstanding	527,930,833	534,532,676

13. MANAGEMENT OF CAPITAL

The Company considers its capital to include equity which amounts to a deficit of \$2,393,257 at December 31, 2017 (June 30, 2017 – \$4,513,370) and is 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 year ended December 31, 2017. The Company manages capital by obtaining loans from private investors and through the issuance of common shares from private placements.

14. FINANCIAL RISK MANAGEMENT

The Company is exposed to a variety of financial risks by virtue of its activities: market risk (including currency risk and interest rate risk), 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:

Currency risk is the risk that fluctuations in the rates of exchange on foreign currency would impact the Company's future cash flows. 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.

Star Navigation Systems Group Ltd.
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(Unaudited – Prepared by Management)

14. 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.

The Company is exposed to fluctuations in the value of the following financial instruments which are held in US dollars:

	December 31, 2017 (Unaudited)	June 30, 2017 (Audited)
Cash	\$ 126,410	\$ 30,465
Accounts receivable	6,726	33,467
Accounts payable	(56,074)	(56,074)
	\$ 77,062	\$ 7,858

Based on the Company's net exposure to US denominated instruments at December 31, 2017 and June 30, 2017, a sensitivity analysis has not been presented as the impact to profit and loss would be immaterial.

(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) 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, 2017, approximately \$Nil (June 30, 2017 - \$Nil) of the Company's receivables were past due the average credit period of 90 days. As at December 31, 2017, the Company's allowance for doubtful accounts was \$Nil (June 30, 2017 - \$Nil) and bad debts expense amounted to \$Nil (December 31, 2016 - \$Nil).

(c) 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, 2017, the Company has current liabilities of \$2,852,111 (June 30, 2017 - \$5,019,652) due within 12 months and had a cash balance of \$139,293 (June 30, 2017 - \$141,891). As at December 31, 2017, the Company has a working capital deficiency of \$2,454,496 (June 30, 2017 - \$4,603,856) 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. See Note 1 for going concern.

There have been no changes for the Company's risk management policies for market risk, credit risk, and liquidity risk since June 30, 2017.

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15. LOANS PAYABLE

	December 31, 2017 (Unaudited)	June 30, 2017 (Audited)
(a) Synchronicity Financial	\$ -	\$ 294,243
(b) Karl Reichert	-	345,062
(c) 1286964 Ontario Inc.	-	170,700
	\$ -	\$ 810,005

(a) On August 14, 2015, the Company entered into a loan agreement with a private investor to borrow \$200,000. The loan is unsecured, bears interest at a rate of 18% per annum calculated monthly not in advance, and is due on demand. The loan was repaid in full when it was converted to common shares of the Company in July 2017 through a shares for debt exchange.

(b) During 2017, the Company entered into a loan agreement with a private investor to initially borrow \$230,000. Additional funds were subsequently advanced prior to June 30, 2017 bringing the total outstanding principal owed to \$330,000. Interest was charged at 8% per annum on the \$230,000 advanced and 12% per annum on the remaining \$100,000 advanced. The loan was unsecured with no fixed terms of repayment. The principal amount of the loan was repaid in full when it was converted to common shares of the Company in July 2017 through a shares for debt exchange.

(c) During 2017, the Company entered into a loan agreement with a private investor to borrow \$170,700. The loan was unsecured, non-interest-bearing with no fixed terms of repayment. The loan was repaid in full when it was converted to common shares of the Company in July 2017 through a shares for debt exchange.

16. SUBSCRIPTION PROCEEDS RECEIVED IN ADVANCE

The Company had accumulated \$296,200 towards a private placement that was started prior to the close of December 31, 2017 and is still in progress (See Subsequent Events – Note 21). The balance at December 31, 2017 is \$296,200 (June 30, 2017 - \$Nil).

17. RELATED PARTY TRANSACTIONS

The Company has accrued and carries a significant balance on its consolidated financial statements of amounts due to related parties. The amounts represent compensation accrued with respect to salary compensation for its officers, monthly compensation accrued for its directors and committee chairpersons that have accumulated over the past several years.

The Company has an exclusive license agreement in place with a company owned and controlled by the CEO and Chairman of the Board regarding the use of patents related to the STAR-ISMS® technology. There were no license payments made or required to be made for the years ended June 30, 2017 and June 30, 2016.

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17. RELATED PARTY TRANSACTIONS (Cont'd)

The Company has an employment agreement in place with the 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 18(b)).

- (a) Amounts due to related parties as at December 31, 2017 is \$1,738,578 (June 30, 2017 - \$2,565,243) and is comprised of the following:

	December 31, 2017 (Unaudited)	June 30, 2017 (Audited)
Due to Directors	\$ 24,000	\$ 176,000
Due to Committee Chairpersons	6,000	26,000
Due to Chief Executive Officer – Viraf Kapadia ⁽ⁱ⁾	1,573,616	2,030,310
Due to Chief Operating Officer – Jean-Louis Larmor	134,962	248,182
Due to Chief Financial Officer – Randy Koroll	-	84,751
	\$1,738,578	\$ 2,565,243

- (i) \$1,573,616 (June 30, 2017 - \$1,882,426) of the balance bears interest at prime + 2% per annum; Interest accrued on the outstanding loan to the CEO for the period ended December 31, 2017 was \$41,488 (June 30, 2017 - \$85,251).

The Company has a loan agreement in place with the CEO dated June 30, 2015. The CEO has voluntarily waived his right to demand repayment on the amounts due to him by the Company prior to July 1, 2016.

All amounts are unsecured and have no fixed terms of repayment.

- (b) 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 December 31, 2017 and June 30, 2017, the \$21,700 is included in the interest-bearing component of the amount due to CEO (prime + 2% per annum).
- (c) 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 December 31, 2017 and June 30, 2017, the \$20,000 is included in the interest-bearing component of the amount due to CEO (prime + 2% per annum).
- (d) Included in accounts payable and accrued liabilities is \$Nil (June 30, 2017 - \$8,662) in credit card debt that is guaranteed by the CEO and Chairman of the Board.
- (e) As part of the private placement that closed on August 15, 2015, 690,000 units were issued to the CEO for the settlement of \$34,500 and 80,000 units were issued to the CFO for the 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 the settlement of \$61,515, 733,333 units were issued to the CFO for the settlement of \$22,000 and 1,000,000 units were issued to the COO for the settlement of \$30,000.

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17. RELATED PARTY TRANSACTIONS (Cont'd)

- (f) 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 the period ended December 31, 2017, the CEO has reverted back to being compensated by regular salary which was accrued during the year.
- (g) Compensation to key management personnel, directors and committee chairpersons included in the interim condensed consolidated statement of comprehensive loss was as follows for the periods ended December 31:

	December 31, 2017	December 31, 2016
Chief Executive Officer	\$ 141,000	\$ 141,000
Chief Operating Officer	123,750	93,000
Chief Financial Officer	12,000	43,260
Board of Director fees	24,000	33,000
Committee Chairperson fees	12,000	16,947
Interest on loans to Chief Executive Officer	41,488	41,348
	\$ 354,238	\$ 368,555

18. 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	2018	2019	2020	2021	Total
Premises	\$144,000	\$144,000	\$ -	\$ -	\$288,000
Equipment	\$ 3,000	\$ -	\$ -	\$ -	\$ 3,000

- (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.

19. SIGNIFICANT CUSTOMER

During the period ended December 31, 2017, 100% (December 31, 2016 – 93%) of the revenue was generated from one customer. During the period ended December 31, 2017, Nil% (December 31, 2016 – 93%) of the revenue recognized during the year was generated from customers located in the United States. During the period ended December 31, 2017, Nil% (December 31, 2016 – 93%) of revenue earned is from repairs and maintenance services on STAR-MMI flat panel displays units.

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20. EXPENSE DISCLOSURES

General and Administrative	2017	2016
Accounting fees	\$ 12,000	\$ 43,260
Bank charges & interest	2,967	5,497
Board and committee fees	36,000	49,947
Insurance	30,046	48,289
Other	129,889	36,207
Professional fees	2,214	33,941
Rent	72,000	101,050
Wages	302,844	280,966
Total G&A expenses	\$ 587,960	\$ 599,157
Research and Development		
Amortization expense	\$ 34,117	\$ 31,688
IT costs	-	10,500
Research and development costs	159,497	14,170
Travel costs	5,234	-
Wages	334,143	291,560
Total R&D expenses	\$ 532,991	\$ 347,918
Marketing and Promotion		
Consultant costs	\$ 264,315	\$ 47,500
Investor relations	60,000	-
Travel costs	38,707	6,082
Total M&P expenses	\$ 363,022	\$ 53,582

21. SUBSEQUENT EVENTS

On January 11, 2018, the Company closed a non-brokered private placement, having issued 4,000,000 units of the Company (the "Units") at a price per Unit of \$0.10 for gross proceeds of \$400,000. Each Unit consists of one common share in the capital of the Company and one warrant. One warrant entitles the holder to purchase one (1) additional common share of the Corporation at fifteen (\$0.15) cents per warrant exercised. The warrants are exercisable during the one (1) year period from the date of issue.