

Star Navigation Systems Group Ltd.

**Interim Condensed Consolidated Financial
Statements**

(Unaudited – Prepared by Management)

**For the three month periods ended September 30, 2018 and September
30, 2017**

(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
November 28, 2018

Star Navigation Systems Group Ltd.
Interim Condensed Consolidated Statements of Financial Position
As at September 30, 2018 and June 30, 2018
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

	September 30, 2018 (Unaudited)	June 30, 2018 (audited)
Assets		
Current		
Cash (Note 8)	\$ 1,138,468	\$ -
Accounts receivable	99,084	46,062
Inventory (Note 7)	177,307	186,804
Sales tax recoverable (Note 6)	144,294	126,640
	1,559,153	359,506
Property and equipment (Note 4)	53,756	57,675
Intangible assets (Note 5)	610	861
	\$ 1,613,519	\$ 418,042
Liabilities		
Current		
Bank indebtedness (Note 8)	\$ -	\$ 59,956
Accounts payable and accrued liabilities (Note 9)	475,618	660,499
Other payables (Note 10)	196,000	196,000
Deferred revenue	162,706	162,706
Due to related parties (Note 15)	2,026,836	1,995,990
	2,861,160	3,075,151
Shareholders' Deficiency		
Share capital (Note 11)	39,767,995	38,772,715
Shares to be issued	-	18,750
Contributed surplus (Note 12)	16,823,916	15,695,446
Deficit	(57,839,552)	(57,144,020)
	(1,247,641)	(2,657,109)
	\$ 1,613,519	\$ 418,042

Nature of Operations and Going Concern (Note 1)

Commitments and Contingencies (Note 16)

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 Months Ended September 30, 2018 and September 30, 2017
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

	Three months ended	
	September 30	
	2018	2017
Revenue (Note 17)	\$ 77,796	\$ 4,520
Expenses		
Cost of inventory consumed (Note 7)	28,986	2,395
General and administrative (Note 18)	291,889	297,550
Research and development (Note 18)	215,456	331,389
Marketing and promotion (Note 18)	210,466	267,929
Foreign exchange loss	57	507
Stock based compensation (Note 12)	-	-
	746,854	899,770
Loss from Operations	(669,058)	(895,250)
Other Income (Expenses)		
Interest expense (Note 15 and 16)	(26,474)	(19,253)
Net Loss and Comprehensive Loss for the year	\$ (695,532)	\$ (914,503)
Basic and diluted loss per common share	\$ (0.001)	\$ (0.002)
Weighted average number of common shares outstanding	457,774,722	424,250,107

Star Navigation Systems Group Ltd.
Interim Condensed Consolidated Statements of Changes in Deficiency
Three Months Ended September 30, 2018 and September 30, 2017
(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, 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(b))	27,333,615	-	2,186,690	-	-	2,186,690
Issued for cash on options exercised (Note 11(f))	3,268,000	-	230,400	-	-	230,400
Issued for cash on warrants exercised (Note 11(g))	12,414,004	-	1,072,598	-	-	1,072,598
Stock-based compensation (Note 12)	-	-	-	-	-	-
Loss for the period	-	-	-	-	(914,503)	(914,503)
Balance at September 30, 2017	442,705,424	615,000	\$38,095,665	\$15,518,908	\$(54,552,758)	\$(1,938,185)
Balance at June 30, 2018	455,154,996	615,000	\$38,772,715	\$15,695,446	\$(57,144,020)	\$(2,675,859)
Issued for cash on private placement (Note 11(h))	42,100,000	-	2,105,000	-	-	2,105,000
Issued as finder's fees on private placement (Note 11(h))	4,210,000	-	210,500	-	-	210,500
Value allocated to warrants as part of private placement (Note 11(c) and 11(d))	-	-	(955,861)	955,861	-	-
Value allocated to options granted (Note 12)	-	-	(172,609)	172,609	-	-
Issued for cash on options exercised	375,000	-	18,750	-	-	18,750
Share issuance costs (Note 11(h))	-	-	(210,500)	-	-	(210,500)
Loss for the period	-	-	-	-	(695,532)	(695,532)
Balance at September 30, 2018	501,839,996	615,000	\$39,767,995	\$16,823,916	\$(57,839,552)	\$(1,247,641)

Star Navigation Systems Group Ltd.
Interim Condensed Consolidated Statements of Cash Flows
Three Months Ended September 30, 2018 and September 30, 2017
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

	Three months ended	
	September 30	
	2018	2017
Cash provided by (used in)		
Operations		
Net loss	\$ (695,532)	\$ (914,503)
Items not affecting cash		
Depreciation	3,919	11,826
Amortization of intangible assets	251	4,626
	(691,362)	(898,051)
Net changes in non-cash working capital		
Accounts receivable	(53,022)	41,538
Inventory	9,497	-
Sales tax recoverable	(17,654)	(25,045)
Accounts payable and accrued liabilities	(184,881)	(92,513)
Deferred revenue	-	80,718
	(937,422)	(893,353)
Investing		
Purchase of property and equipment	-	(4,870)
Financing		
Proceeds of warrants exercised	-	1,072,598
Due to related parties (Note 15)	30,846	(149,130)
Proceeds of private placement (Note 12)	2,105,000	230,400
	2,135,846	1,153,868
Net change in cash	1,198,424	255,645
Cash (bank indebtedness), beginning of period	(59,956)	141,891
Cash, end of period	\$ 1,138,468	\$ 397,536
Supplemental Disclosure		
Interest paid	\$ 26,474	\$ 19,253
Shares issues for settlement of Accounts payables	-	643,504
Shares issued for settlement of Loans payable	-	810,005
Shares issues for settlement of related party loans	-	733,181

Star Navigation Systems Group Ltd.
Notes to Interim Condensed Consolidated Financial Statements
September 30, 2018
(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 11 Kenview Blvd, Brampton, Ontario L6T 5G5. The Company is 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 \$695,532 for the period ended September 30, 2018 (September 30, 2017 – \$914,503), has an accumulated deficit of \$57,839,552 (June 30, 2018 - \$57,144,020) and has negative working capital of \$1,302,007 (June 30, 2018 – \$2,715,645). 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 financial position 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 condensed 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 condensed consolidated financial statements for the three months ended September 30, 2018 and 2017 should be read together with the annual consolidated financial statements as at and for the year ended June 30, 2018. The same accounting policies and methods of computation were followed in the preparation of these interim condensed 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, 2018.

(b) Basis of Measurement

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

Star Navigation Systems Group Ltd.
Notes to Interim Condensed Consolidated Financial Statements
September 30, 2018
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

2. BASIS OF PRESENTATION (Cont'd)

(c) Functional and Presentation Currency

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

(d) Basis of Consolidation

These interim condensed 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 these interim condensed 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 interim condensed 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 considered by management in preparing the interim condensed consolidated financial statements are as follows:

3. RECENT ACCOUNTING PRONOUNCEMENTS ISSUED AND NOT YET APPLIED

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods after September 30, 2018 or later periods. Many are not applicable or do not have a significant impact to the Company. The following have not yet been adopted and are being evaluated to determine the resultant impact on the Company.

Financial Instruments: Disclosure – IFRS 7

IFRS 7, *Financial instruments: Disclosure* ("IFRS 7"), was amended to require additional disclosures on transition from IAS 39 to IFRS 9. IFRS 7 is effective on adoption of IFRS 9, which is effective for annual periods commencing on or after January 1, 2018. The Company intends to adopt the amendments to IFRS 7 on July 1, 2018 and does not expect the implementation will result in a significant effect to the consolidated financial statements.

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

Financial Instruments - IFRS 9

IFRS 9, *Financial Instruments* ("IFRS 9"), was issued by the International Accounting Standards Board ("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. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held for trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative hosts not within the scope of the standard. The Company will adopt IFRS 9 effective July 1, 2018. The Company has completed its assessment of the impact of this new standard and expects no significant changes as a result of this or elsewhere in the application of the new standard.

Revenue from Contracts with Customers – IFRS 15

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), was issued by the IASB in May 2014 and specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. On April 12, 2016, the IASB published final clarifications to IFRS 15 with respect to identifying performance obligations, principal versus agent considerations, and licensing. The Company will adopt IFRS 15 effective July 1, 2018. The Company has completed its assessment of the impact of this new standard and has noted beyond the required additional disclosures, there exist no material changes to the consolidated financial statements or required retroactive adjustments.

Leases – IFRS 16

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.

Share-based Payments – IFRS 2

IFRS 2, *Share-based Payments* ("IFRS 2"), - In September 2017, the IASB issued final amendments to IFRS 2, which clarifies how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: (i) the effect of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share based payment that changes the classifications of the transaction from cash-settled to equity settled. The amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company intends to adopt the amendments to IFRS 2 on July 1, 2018 and does not expect the implementation will result in a significant effect to the consolidated financial statements.

Star Navigation Systems Group Ltd.
Notes to Interim Condensed Consolidated Financial Statements
September 30, 2018
(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, 2018	\$ 84,626	\$ 278,822	\$ 156,292	\$ 318,795	\$ 838,535
Additions	-	-	-	-	-
Balance at Sept 30, 2018	\$ 84,626	\$ 278,822	\$ 156,292	\$ 318,795	\$ 838,535
Accumulated Depreciation					
Balance at June 30, 2018	\$ 84,626	\$ 234,952	\$ 153,260	\$ 308,022	\$ 780,860
Amortization for the period	-	2,194	379	1,346	3,919
Balance at Sept 30, 2018	\$ 84,626	\$ 237,146	\$ 153,639	\$ 309,368	\$ 784,779
Carrying Amounts					
As at June 30, 2018	\$ -	\$ 43,870	\$ 3,032	\$ 10,773	\$ 57,675
As at Sept 30, 2018	\$ -	\$ 41,676	\$ 2,653	\$ 9,427	\$ 53,756

Star Navigation Systems Group Ltd.
Notes to Interim Condensed Consolidated Financial Statements
September 30, 2018
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

5. 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, 2018	\$ 136,146	\$ 908,726	\$ 25,037	\$ 264,810	\$ 619,498	\$ 1,954,217
Additions	-	-	-	-	-	-
Balance at Sept 30, 2018	\$ 136,146	\$ 908,726	\$ 25,037	\$ 264,810	\$ 619,498	\$ 1,954,217
Accumulated Amortization and Impairment						
Balance at June 30, 2018	\$ 135,285	\$ 908,726	\$ 25,037	\$ 264,810	\$ 619,498	\$ 1,953,356
Amortization for year	251	-	-	-	-	251
Balance at Sept 30, 2018	\$ 135,536	\$ 908,726	\$ 25,037	\$ 264,810	\$ 619,498	\$ 1,953,607
Carrying Amounts						
As at June 30, 2018	\$ 861	\$ -	\$ -	\$ -	\$ -	\$ -
As at Sept 30, 2018	\$ 610	\$ -	\$ -	\$ -	\$ -	\$ 610

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

Star Navigation Systems Group Ltd.
Notes to Interim Condensed Consolidated Financial Statements
September 30, 2018
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

6. SALES TAX RECOVERABLE

Sales tax recoverable is due from the Government of Canada in relation to Harmonized Sales Tax refunds, which as at September 30, 2018 amounted to \$144,294 (June 30, 2018 - \$126,640).

7. INVENTORY

Inventory is comprised of the following:

	September 30, 2018 (Unaudited)	June 30, 2018 (audited)
Finished goods – STAR-ISMS®	\$ 85,000	\$ 85,000
Parts and components – STAR-ISMS®	50,776	50,776
Parts and components – STAR-MMI	41,531	51,028
	\$ 177,307	\$ 186,804

For the period ended September 30, 2018, the cost of inventory consumed in connection with revenue recognized was \$28,986 (September 30, 2017 – \$2,395).

For the period ended September 30, 2018, the write-down of inventory to net realizable value amounted to \$Nil (June 30, 2018 – \$NIL). There were no reversals of previously recorded write-downs for the periods ended September 30, 2018 and 2017.

8. BANK 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 September 30, 2018 and 2017. The LOC is presented on a net basis in cash on the statements of financial position.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2018 (Unaudited)	June 30, 2018 (audited)
Trade payables	\$ 256,050	\$ 270,671
Accrued liabilities ^(a)	219,568	389,828
	\$ 475,618	\$ 660,499

(a) Included in accrued liabilities are payroll remittance arrears owing to the Canada Revenue Agency (“CRA”) totaling \$171,400 (June 30, 2018 - \$221,068).

Star Navigation Systems Group Ltd.
Notes to Interim Condensed Consolidated Financial Statements
September 30, 2018
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

10. OTHER PAYABLES

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

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 September 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 2017, the Company issued 27,335,615 common shares of the Company at a price of \$0.08 per share in settlement of \$563,566 of trade payables, \$794,943 of loans payable and \$828,181 of amounts due to related parties being the fair market value of the debt at the time of settlement.
- (c) 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. Each warrant entitles the holder to purchase one (1) additional common share of the Company at fifteen (\$0.15) cents per warrant exercised. The warrants are exercisable during the one (1) year period from the date of issue. In addition, the Company has agreed to pay finder's fees in the amount of 400,000 Units valued at \$40,000.
- (d) On April 27, 2018, the Company closed a non-brokered private placement, having issued 3,766,667 units of the Company (the "Units") at a price per Unit of \$0.06 for gross proceeds of \$226,000. Each Unit consists of one common share in the capital of the Company and one warrant. Each warrant entitles the holder to purchase one (1) additional common share of the Company at seven (\$0.07) cents per warrant exercised. The warrants are exercisable during the one (1) year period from the date of issue. In addition, the Company has agreed to pay finder's fees in the amount of 376,667 Units valued at \$22,600.
- (e) During the year ended June 30, 2018, the Company issued a total of 629,571 common shares valued at \$44,070, to a consultant of the Company for services rendered.
- (f) During the year ended June 30, 2018, 4,190,000 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 \$235,500.

Star Navigation Systems Group Ltd.
Notes to Interim Condensed Consolidated Financial Statements
September 30, 2018
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

11. SHARE CAPITAL (Cont'd)

Share Capital Activity (Cont'd)

- (g) During the year ended June 30, 2018, 14,768,671 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 \$1,251,016.
- (h) On September 6, 2018, the Company closed a non-brokered private placement issuing 46,310,000 units of the Company (the "Units") at a price per Unit of \$0.05 for gross proceeds of \$2,105,000. 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 seven (\$0.07) cents per warrant exercised. The warrants are exercisable during the one (1) year period from the date of issue. In addition, the Company has agreed to pay finder's fees in the amount of ten (10%) percent of gross proceeds in Units.

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, 2017	9,497,900		\$0.09
Options granted	(4,190,000)	\$0.05-\$0.07	\$0.06
Options expired	(2,412,900)	\$0.07-\$0.15	\$0.13
Balance at June 30, 2018	2,895,000		\$0.05
Options exercised	-		
Options granted	1,500,000	\$0.075-\$0.15	\$0.09
Options expired	-		
Balance at September 30, 2018	4,395,000		\$0.033
Exercisable at September 30, 2018	2,895,000		\$0.033

Star Navigation Systems Group Ltd.
Notes to Interim Condensed Consolidated Financial Statements
September 30, 2018
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

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

Stock-Based Compensation (Cont'd)

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

	September 30, 2018 (Unaudited)	June 30, 2018 (audited)
Expected dividend yield	Nil	-
Risk free interest rate	2.05%	-
Expected volatility	132%	-
Expected life	2 years	-
Share price	\$0.075	-

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

On September 6, 2018, the Company granted 1,500,000 stock options with an exercise price of \$0.075-\$0.15. The options expire on August 31, 2020 and will vest in their entirety after 4 months from the grant date. The fair value of each of these options was determined to be \$0.0397.

As at September 30, 2018 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
January 30, 2014	25,000	25,000	\$0.07	December 15, 2018
March 31, 2016	1,850,000	1,850,000	\$0.05	March 1, 2021
October 21, 2016	1,020,000	1,020,000	\$0.05	March 1, 2021
September 6, 2018	<u>1,500,000</u>	-	\$0.075-\$0.15	August 31, 2020
	4,395,000	2,895,000		

The weighted average remaining contractual life of the outstanding options is 0.82 years (June 30, 2018 – 1.07 years).

Star Navigation Systems Group Ltd.
Notes to Interim Condensed Consolidated Financial Statements
September 30, 2018
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

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

	Number	Weighted-Average Exercise Price	Expiry Date
Balance at June 30, 2017	125,344,971	\$0.09	
Exercised	(14,768,671)	\$0.03	July 25, 2017-April 15, 2019
Issued	8,543,334	\$0.11	January 11, 2019- April 27, 2019
Expired	(44,037,458)	\$0.11	July 25, 2017- September 17, 2017
Balance at June 30, 2018	75,082,176	\$0.01	
Issued	46,310,000	\$0.05	September 10, 2019
Balance at September 30, 2018	121,392,176	\$0.01	

As at September 30, 2018, the Company had warrants issued and outstanding as follows:

Date of Issue	Warrants Issued	Exercise Price	Expiry Date
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	32,142,246	\$0.07	April 15, 2019
January 11, 2018	4,400,000	\$0.15	January 11, 2019
April 27, 2018	4,143,334	\$0.07	April 27, 2019
September 10, 2018	46,310,000	\$0.05	September 10, 2019
	121,392,176		

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

	September 30, 2018 (Unaudited)	June 30, 2018 (audited)
Expected dividend yield	Nil	Nil
Risk free interest rate	2.05%	1.73-1.90%
Expected volatility	96%	126-149%
Expected life	1.0 years	1.0 years
Share price	\$0.075	\$0.055-\$0.085

Star Navigation Systems Group Ltd.
Notes to Interim Condensed Consolidated Financial Statements
September 30, 2018
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

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

Expected volatility is based on historical data.

Basic and diluted loss per common share based on net loss for the period ended September 30;

Numerator:	September 30, 2018 (Unaudited)	September 30, 2017 (Unaudited)
Net loss for the year	\$(695,532)	\$(914,503)
Denominator:		
Weighted average number of common shares outstanding - basic	457,774,722	424,250,107
Weighted average effect of diluted stock options and warrants	-	-
Weighted average number of common shares outstanding - diluted	457,774,722	424,250,107
Loss per common share based on net loss for the year:		
Basic	\$ (0.001)	\$(0.002)
Diluted	\$ (0.001)	\$(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 September 30:

	September 30, 2018 (Unaudited)	June 30, 2018 (Audited)
Common shares outstanding	501,839,996	455,154,996
Warrants to purchase common shares	121,392,176	75,082,176
Stock options to purchase common shares	4,395,000	2,895,000
Fully diluted common shares outstanding	627,627,172	533,132,172

13. MANAGEMENT OF CAPITAL

The Company considers its capital to include all components of equity which amounts to a deficit of \$1,247,641 at September 30, 2018 (June 30, 2018 – \$2,657,109) 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 September 30, 2018. The Company manages capital by obtaining loans from private investors and through the issuance of 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), 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:

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.

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.

Star Navigation Systems Group Ltd.
Notes to Interim Condensed Consolidated Financial Statements
September 30, 2018
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

14. FINANCIAL RISK MANAGEMENT (Cont'd)

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

	September 30, 2018 (Unaudited)	June 30, 2018 (Audited)
Cash	\$ 1,138,468	\$ 829
Accounts receivable	6,720	26,562
Accounts payable	(56,074)	(56,074)
	\$ 1,089,114	\$ (28,683)

Based on the Company's net exposure to US denominated instruments at September 30, 2018 and September 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 20, the Company earns a significant amount of revenue from a few customers. As at September 30, 2018, approximately \$6,726 (June 30, 2018 - \$6,726) of the Company's receivables were past due the average credit period of 90 days. As at September 30, 2018, the Company's allowance for doubtful accounts was \$Nil (June 30, 2018 - \$Nil) and bad debts expense amounted to a recovery of \$Nil (September 30, 2017 – expense of \$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 September 30, 2018, the Company has current liabilities of \$2,861,160 (June 30, 2018 - \$3,075,151) due within 12 months and cash of \$1,138,468 (June 30, 2018 – bank indebtedness of \$59,956). As at September 30, 2018, the Company has a working capital deficiency of \$1,302,007 (June 30, 2018 - \$2,715,645) 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, 2018.

Star Navigation Systems Group Ltd.
Notes to Interim Condensed Consolidated Financial Statements
September 30, 2018
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

15. 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 its 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 September 30, 2018 and September 30, 2017.

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 19(b)).

- (a) Amounts due to related parties at September 30, 2018 is \$2,026,836 (June 30, 2018 - \$1,995,990) and is comprised of the following:

	2018	2017
Due to Directors	\$ 60,000	\$ 48,000
Due to Committee Chairpersons	15,000	12,000
Due to Chief Executive Officer – Viraf Kapadia ⁽ⁱ⁾	1,757,912	1,706,546
Due to Chief Operating Officer – Jean-Louis Larmor	193,924	224,924
Due to Chief Financial Officer – Randy Koroll	-	4,520
	\$ 2,026,836	\$ 1,995,990

- (i) \$1,696,029 (June 30, 2018 - \$1,644,663) of the balance bears interest at 5% per annum; \$61,883 (June 30, 2018 - \$61,883) of the balance is non-interest bearing. Interest accrued on the loan payable to the CEO for the period ended September 30, 2018 was \$26,474 (September 30, 2017 – \$19,253).

All amounts are unsecured and are due on demand.

- (b) The Company also owes \$5,962 (June 30, 2018 - \$7,550) in credit card debt that is guaranteed by the CEO and Chairman of the Board in accounts payables and accrued liabilities.

Star Navigation Systems Group Ltd.
Notes to Interim Condensed Consolidated Financial Statements
September 30, 2018
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

15. RELATED PARTY TRANSACTIONS (Cont'd)

- (c) Compensation to key management personnel, directors and committee chairpersons included in general and administrative expenses in the consolidated statement of comprehensive loss was as follows for the years ended September 30:

	2018	2017
Chief Executive Officer	\$ 59,250	\$ 70,500
Chief Operating Officer	46,500	77,250
Chief Financial Officer	13,000	6,000
Board of Director fees	12,000	12,000
Committee Chairperson fees	3,000	6,000
Interest expense paid to Chief Executive Officer	26,474	19,253
Total at September 30, 2018	\$ 160,224	\$ 191,003

16. COMMITMENTS AND CONTINGENCIES

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

Item	2019	2020	2021	2022	2023	Total
Premises	\$ 99,000	\$130,500	\$ 167,188	\$194,346	\$196,066	\$787,100

- (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.

17. SIGNIFICANT CUSTOMER

During the period ended September 30, 2018, 100% (September 30, 2017 – 100%) of the revenue was generated from one customer. During the period ended September 30, 2018, 100% (September 30, 2017 – Nil%) of the revenue recognized during the year was generated from customers located in the United States. During the period ended September 30, 2018, 100% (September 30, 2017 – Nil%) of revenue earned is from repairs and maintenance services on STAR-MMI flat panel displays units.

Star Navigation Systems Group Ltd.
Notes to Interim Condensed Consolidated Financial Statements
September 30, 2018
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

18. EXPENSE DISCLOSURES

General and Administrative	2018	2017
Accounting fees	\$ 13,000	\$ 6,000
Bank charges and interest	3,223	1,946
Board and committee fees	15,000	18,000
Insurance	25,076	10,114
Office and general	37,280	58,107
Professional fees	23,099	1,164
Rent	36,000	36,000
Wages	139,211	166,219
Total G&A expenses	\$ 291,889	\$ 297,550
Research and Development		
Amortization expense	4,169	16,453
Research and development costs	27,168	122,639
Travel costs	1,795	907
Wages	182,324	191,390
Total R&D expenses	\$ 215,456	\$ 331,389
Marketing and Promotion		
Consultant costs	\$ 172,642	\$ 159,615
Investor relations	9,000	36,000
Travel costs	28,824	72,314
Total M&P expenses	\$ 210,466	\$ 267,929

19. SEGMENT INFORMATION

The Company operates in a single segment, consisting of the development, marketing, and sale of in-flight safety monitoring systems, whereby data from an aircraft can be transmitted to ground stations for the duration of a flight. This segment operates entirely in Canada. All revenues are earned by this segment, and all assets are held by this segment. Accordingly, no segmented information is presented in these consolidated financial statements.

20. SUBSEQUENT EVENTS

The Company has entered into a ten-year lease for new premises located in Brampton, Ontario. The move has taken place and setup is proceeding as scheduled.