

# **Star Navigation Systems Group Ltd.**

**Interim Condensed Consolidated Financial  
Statements**

**(Unaudited – Prepared by Management)**

**For the three and six month periods ended December 31, 2018 and  
December 31, 2017**

**(Expressed in Canadian dollars)**

## **NOTICE TO READER**

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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, 2019



**Star Navigation Systems Group Ltd.**  
**Interim Condensed Consolidated Statements of Loss and Comprehensive Loss**  
**Three and Six Months Ended December 31, 2018 and December 31, 2017**  
**(Expressed in Canadian dollars)**  
**(Unaudited – Prepared by Management)**

	Three months ended December 31		Six months ended December 31	
	2018	2017	2018	2017
<b>Revenue</b> (Note 17)	\$ 223,241	\$ -	\$ 301,037	\$ 4,520
<b>Expenses</b>				
Cost of inventory consumed (Note 7)	48,831	7,009	77,817	9,403
General and administrative (Note 18)	296,166	290,409	584,555	587,960
Research and development (Note 18)	208,144	201,601	423,600	532,991
Marketing and promotion (Note 18)	139,390	95,094	344,355	363,022
Foreign exchange loss (gain)	-	(1,907)	100	(1,400)
	692,531	592,206	1,430,427	1,491,976
<b>Loss from Operations</b>	(469,290)	(592,206)	(1,129,390)	(1,487,456)
<b>Other Income (Expenses)</b>				
Interest expense (Note 15)	(24,579)	(21,366)	(51,012)	(40,619)
<b>Net Loss and Comprehensive Loss for the year</b>	\$ (493,869)	\$ (613,572)	\$ (1,180,402)	\$ (1,528,075)
<b>Basic and diluted loss per common share</b>	\$ (0.001)	\$ (0.001)	\$ (0.003)	\$ (0.003)
<b>Weighted average number of common shares outstanding</b>	458,844,059	443,993,196	470,611,237	434,165,537

**Star Navigation Systems Group Ltd.**  
**Interim Condensed Consolidated Statements of Changes in Deficiency**  
**Six Months Ended December 31, 2018 and December 31, 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
<b>Balance at June 30, 2017</b>	<b>399,689,805</b>	<b>615,000</b>	<b>\$34,605,977</b>	<b>\$15,518,908</b>	<b>\$(54,638,255)</b>	<b>\$(4,513,370)</b>
Issued on settlement of debt (Note 11(c))	27,333,615	-	2,186,690	-	-	2,186,690
Issued for cash on options exercised (Note 11(d))	3,898,000	-	261,900	-	-	261,900
Issued for cash on warrants exercised (Note 11(b))	13,514,004	-	1,199,598	-	-	1,199,598
Loss for the period	-	-	-	-	(1,528,075)	(1,528,075)
<b>Balance at December 31, 2017</b>	<b>444,435,424</b>	<b>615,000</b>	<b>\$38,254,165</b>	<b>\$15,518,908</b>	<b>\$(56,166,330)</b>	<b>\$(2,393,257)</b>
<b>Balance at June 30, 2018</b>	<b>455,154,996</b>	<b>615,000</b>	<b>\$38,772,715</b>	<b>\$15,695,446</b>	<b>\$(57,144,020)</b>	<b>\$(2,675,859)</b>
Issued for cash on private placement (Note 11(j))	42,100,000	-	2,105,000	-	-	2,105,000
Issued as finder's fees on private placement (Note 11(j))	4,210,000	-	210,500	-	-	210,500
Value allocated to warrants as part of private placement (Note 11(j))	-	-	(955,861)	955,861	-	-
Issued for cash on warrants exercised (Note 11(k))	10,654,179	-	763,800	-	-	763,800
Issued for cash on options exercised (Note 11(l))	550,000	-	35,000	-	-	35,000
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(j))	-	-	(210,500)	-	-	(210,500)
Loss for the period	-	-	-	-	(1,180,402)	(1,180,402)
<b>Balance at December 31, 2018</b>	<b>513,044,175</b>	<b>615,000</b>	<b>\$40,566,795</b>	<b>\$16,823,916</b>	<b>\$(58,324,422)</b>	<b>\$(933,711)</b>

**Star Navigation Systems Group Ltd.**  
**Interim Condensed Consolidated Statements of Cash Flows**  
**Three and Six Months Ended December 31, 2018 and December 31, 2017**  
**(Expressed in Canadian dollars)**  
**(Unaudited – Prepared by Management)**

	Three months ended December 31		Six months ended December 31	
	2018	2017	2018	2017
<b>Cash provided by (used in)</b>				
<b>Operations</b>				
Net loss	\$ (493,869)	\$ (613,572)	\$ (1,180,402)	\$ (1,528,075)
Items not affecting cash				
Depreciation	4,683	13,045	8,602	24,871
Amortization of intangible assets	250	4,620	501	9,246
	<b>(488,936)</b>	<b>(595,907)</b>	<b>(1,171,299)</b>	<b>(1,493,958)</b>
Net changes in non-cash working capital				
Accounts receivable	(190,753)	25,820	(243,775)	67,358
Inventory	17,331	-	26,828	-
Sales tax recoverable	(37,174)	(26,730)	(54,828)	(51,775)
Prepaid expenses and deposits	(119,022)	-	(119,022)	-
Accounts payable and accrued liabilities	(143,227)	(171,772)	(328,112)	(264,285)
Deferred revenue	(28,145)	-	(28,145)	80,718
	<b>(989,926)</b>	<b>(768,589)</b>	<b>(1,918,353)</b>	<b>(1,661,942)</b>
<b>Investing</b>				
Purchase of property and equipment	(24,378)	-	(24,378)	(4,870)
<b>Financing</b>				
Subscription proceeds rec'd in advance	-	296,200	-	296,200
Due to related parties	35,079	55,646	65,925	(93,484)
Proceeds of warrants exercised	763,800	127,000	763,800	1,199,598
Proceeds from options exercised	35,000	31,500	35,000	261,900
Proceeds from private placement	-	-	2,105,000	-
	<b>833,879</b>	<b>510,346</b>	<b>2,969,725</b>	<b>1,664,214</b>
<b>Net change in cash</b>	<b>(180,425)</b>	<b>(258,243)</b>	<b>1,026,994</b>	<b>(2,598)</b>
<b>Cash (bank indebtedness), beginning of period</b>	<b>1,147,463</b>	<b>397,536</b>	<b>(59,956)</b>	<b>141,891</b>
<b>Cash, end of period</b>	<b>\$ 967,038</b>	<b>\$ 139,293</b>	<b>\$ 967,038</b>	<b>\$ 139,293</b>
<b>Supplemental Disclosure</b>				
Interest paid	\$ 24,579	\$ 21,366	\$ 51,012	\$ 40,619
Shares issue for settlement of Accounts payables	-	-	-	563,566
Shares issued for settlement of Loans payable	-	-	-	794,943
Shares issued for settlement of related party loans	-	-	-	828,181

**Star Navigation Systems Group Ltd.**  
**Notes to the Interim Condensed Consolidated Financial Statements**  
**December 31, 2018**  
**(Expressed in Canadian dollars)**  
**(Unaudited – Prepared by Management)**

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

Star Navigation Systems Group Ltd. (the “Company”) is devoting substantially all of its activity to the development, marketing and promotion of an In-flight Safety Monitoring System (“STAR-ISMS®”), whereby data from an aircraft can be transmitted to ground stations for the duration of a flight. 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 \$1,180,402 for the period ended December 31, 2018 (December 31, 2017 – \$1,528,075), has an accumulated deficit of \$58,324,422 (June 30, 2018 - \$57,144,020) and has negative working capital of \$1,007,522 (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 and six months ended December 31, 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 the Interim Condensed Consolidated Financial Statements**  
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**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 were the same as those in the annual financial statements for the year ended June 30, 2018.

**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 December 31, 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 the Interim Condensed Consolidated Financial Statements**  
**December 31, 2018**  
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**4. PROPERTY AND EQUIPMENT**

	Leasehold Improvements	Furniture and Equipment	Computer Equipment and Software	Computer Equipment under Finance Lease	<b>Total</b>
<b>Cost</b>					
Balance at June 30, 2018	\$ 84,626	\$ 278,822	\$ 156,292	\$ 318,795	\$ 838,535
Additions	-	20,258	4,120	-	24,378
<b>Balance at Dec 31, 2018</b>	<b>\$ 84,626</b>	<b>\$ 299,080</b>	<b>\$ 160,412</b>	<b>\$ 318,795</b>	<b>\$ 862,913</b>
<b>Accumulated Depreciation</b>					
Balance at June 30, 2018	\$ 84,626	\$ 234,952	\$ 153,260	\$ 308,022	\$ 780,860
Amortization for the period	-	4,893	1,016	2,693	8,602
<b>Balance at Dec 31, 2018</b>	<b>\$ 84,626</b>	<b>\$ 239,845</b>	<b>\$ 154,276</b>	<b>\$ 310,715</b>	<b>\$ 789,462</b>
<b>Carrying Amounts</b>					
As at June 30, 2018	\$ -	\$ 43,870	\$ 3,032	\$ 10,773	\$ 57,675
<b>As at Dec 31, 2018</b>	<b>\$ -</b>	<b>\$ 59,235</b>	<b>\$ 6,136</b>	<b>\$ 8,080</b>	<b>\$ 73,451</b>

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**5. INTANGIBLE ASSETS**

<b>Cost</b>	<b>License Rights <sup>(a)</sup></b>	<b>STAR-MMI Technology and Patents <sup>(b)</sup></b>	<b>Website Costs</b>	<b>GUI System</b>	<b>STAR-ISMS® and Peripherals</b>	<b>Total</b>
Balance at June 30, 2018	\$ 136,146	\$ 908,726	\$ 25,037	\$ 264,810	\$ 619,498	\$ 1,954,217
Additions	-	-	-	-	-	-
<b>Balance at Dec 31, 2018</b>	<b>\$ 136,146</b>	<b>\$ 908,726</b>	<b>\$ 25,037</b>	<b>\$ 264,810</b>	<b>\$ 619,498</b>	<b>\$ 1,954,217</b>
<b>Accumulated Amortization and Impairment</b>						
Balance at June 30, 2018	\$ 135,285	\$ 908,726	\$ 25,037	\$ 264,810	\$ 619,498	\$ 1,953,356
Amortization for year	501	-	-	-	-	501
<b>Balance at Dec 31, 2018</b>	<b>\$ 135,786</b>	<b>\$ 908,726</b>	<b>\$ 25,037</b>	<b>\$ 264,810</b>	<b>\$ 619,498</b>	<b>\$ 1,953,857</b>
<b>Carrying Amounts</b>						
As at June 30, 2018	\$ 861	\$ -	\$ -	\$ -	\$ -	\$ 861
<b>As at Dec 31, 2018</b>	<b>\$ 360</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 360</b>

(a) In 2002, the Company acquired the license rights to the STAR-ISMS® from a director and a former director of the Company. The underlying patents are now owned by the CEO and director of the Company (see Note 15). The Company owns the exclusive, worldwide license for the lifetime of the patents.

**Star Navigation Systems Group Ltd.**  
**Notes to the Interim Condensed Consolidated Financial Statements**  
**December 31, 2018**  
**(Expressed in Canadian dollars)**  
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**6. SALES TAX RECOVERABLE**

Sales tax recoverable is due from the Government of Canada in relation to Harmonized Sales Tax refunds, which as at December 31, 2018 amounted to \$181,468 (June 30, 2018 - \$126,640).

**7. INVENTORY**

Inventory is comprised of the following:

	<b>December 31, 2018 (Unaudited)</b>	June 30, 2018 (Audited)
Finished goods – STAR-ISMS®	\$ 85,000	\$ 85,000
Parts and components – STAR-ISMS®	33,444	50,776
Parts and components – STAR-MMI	41,532	51,028
	<b>\$ 159,976</b>	<b>\$ 186,804</b>

For the period ended December 31, 2018, the cost of inventory consumed in connection with revenue recognized was \$77,817 (June 30, 2018 – \$52,435).

**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 December 31, 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**

	<b>December 31, 2018 (Unaudited)</b>	June 30, 2018 (Audited)
Trade payables	\$ 187,653	\$ 270,671
Accrued liabilities <sup>(a)</sup>	144,734	389,828
	<b>\$ 332,387</b>	<b>\$ 660,499</b>

(a) Included in accrued liabilities are payroll remittance arrears owing to the Canada Revenue Agency (“CRA”) totaling \$93,266 (June 30, 2018 - \$221,068).

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**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 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, 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.
- (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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**11. SHARE CAPITAL (Cont'd)**

**Share Capital Activity (Cont'd)**

- (e) 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.
- (f) 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.
- (g) 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.
- (h) 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.
- (i) 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.
- (j) On September 6, 2018, the Company closed a non-brokered private placement issuing 42,100,000 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. 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 4,210,000 Units valued at \$210,500.
- (k) During the period ended December 31, 2018, 10,654,179 warrants to purchase common shares of the Company were exercised at a price of \$0.07 per common share, resulting in proceeds to the Company of \$763,800.
- (l) During the year ended June 30, 2019, 550,000 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 \$35,000.

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**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.

<b>Stock Option Transactions</b>	<b>Number</b>	<b>Exercise Price</b>	<b>Weighted Average Exercise Price</b>
<b>Balance at June 30, 2017</b>	<b>9,497,900</b>		<b>\$0.09</b>
Options exercised	(4,190,000)	\$0.05-\$0.07	\$0.06
Options expired	(2,412,900)	\$0.07-\$0.15	\$0.13
<b>Balance at June 30, 2018</b>	<b>2,895,000</b>		<b>\$0.05</b>
Options expired	(25,000)	\$0.07	\$0.07
Options exercised	(550,000)	\$0.05-\$0.10	\$0.075
Options granted	1,500,000	\$0.075-\$0.15	\$0.09
<b>Balance at December 31, 2018</b>	<b>3,820,000</b>		<b>\$0.033</b>
<b>Exercisable at December 31, 2018</b>	<b>2,320,000</b>		<b>\$0.033</b>

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

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.

	<b>December 31, 2018 (Unaudited)</b>	June 30, 2018 (Audited)
Expected dividend yield	<b>Nil</b>	-
Risk free interest rate	<b>2.05%</b>	-
Expected volatility	<b>132%</b>	-
Expected life	<b>2 years</b>	-
Share price	<b>\$0.075</b>	-

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

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

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

As at December 31, 2018 the Company had stock options issued to directors, officers, employees and key consultants of the Company outstanding as follows:

<b>Date of Grant</b>	<b>Options Granted</b>	<b>Options Exercisable</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
March 31, 2016	1,300,000	1,300,000	\$0.05	March 1, 2021
October 21, 2016	1,020,000	1,020,000	\$0.05	March 1, 2021
September 6, 2018	1,500,000	-	\$0.075-\$0.15	August 31, 2020
	<b>3,820,000</b>	<b>2,320,000</b>		

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The weighted average remaining contractual life of the outstanding options is 0.56 years (June 30, 2018 – 1.07 years).

**Warrants**

	<b>Number</b>	<b>Weighted-Average Exercise Price</b>	<b>Expiry Date</b>
<b>Balance at June 30, 2017</b>	<b>125,344,971</b>	<b>\$0.09</b>	
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-May 15, 2018
<b>Balance at June 30, 2018</b>	<b>75,082,176</b>	<b>\$0.01</b>	
Expired	(595,821)	\$0.08	October 18, 2018
Exercised	(10,654,179)	\$0.07	October 18, 2018
Issued	46,310,000	\$0.05	September 6, 2019
<b>Balance at December 31, 2018</b>	<b>110,142,176</b>	<b>\$0.01</b>	

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

As at December 31, 2018, the Company had warrants issued and outstanding as follows:

<b>Date of Issue</b>	<b>Warrants Issued</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
April 15, 2014	23,146,596	\$0.08	April 12, 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 6, 2018	46,310,000	\$0.05	September 6, 2019
	<b>110,142,176</b>		

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

	<b>December 31, 2018 (Unaudited)</b>	<b>June 30, 2018 (Audited)</b>
Expected dividend yield	<b>Nil</b>	Nil
Risk free interest rate	<b>2.05%</b>	1.73-1.90%
Expected volatility	<b>96%</b>	126-149%
Expected life	<b>1.0 years</b>	1.0 years
Share price	<b>\$0.075</b>	\$0.055-\$0.085

Expected volatility is based on historical data.

**Basic and diluted loss per common share based on net loss for the period ended December 31;**

<b>Numerator:</b>	<b>December 31, 2018 (Unaudited)</b>	<b>December 31, 2017 (Unaudited)</b>
Net loss for the year	<b>\$(1,180,402)</b>	\$(1,528,075)
<b>Denominator:</b>		
Weighted average number of common shares outstanding - basic	<b>470,611,237</b>	434,165,537
Weighted average effect of diluted stock options and warrants	-	-
Weighted average number of common shares outstanding - diluted	<b>470,611,237</b>	434,165,537
<b>Loss per common share based on net loss for the year:</b>		
Basic	<b>\$ (0.002)</b>	\$(0.003)
Diluted	<b>\$ (0.002)</b>	\$(0.003)

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

**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, 2018:

	<b>December 31, 2018 (Unaudited)</b>	June 30, 2018 (Audited)
Common shares outstanding	<b>513,044,175</b>	455,154,996
Warrants to purchase common shares	<b>110,142,176</b>	75,082,176
Stock options to purchase common shares	<b>3,820,000</b>	2,895,000
Fully diluted common shares outstanding	<b>627,006,351</b>	533,132,172

**13. MANAGEMENT OF CAPITAL**

The Company considers its capital to include all components of equity which amounts to a deficit of \$933,711 at December 31, 2018 (June 30, 2018 – \$2,675,109) 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 period ended December 31, 2018. The Company manages capital by obtaining loans from private investors and through the issuance of shares from private placements.

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**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.

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

	<b>December 31, 2018 (Unaudited)</b>	June 30, 2018 (Audited)
Cash	\$ 581	\$ 829
Accounts receivable	194,820	26,562
Accounts payable	(56,074)	(56,074)
	<b>\$ 139,327</b>	<b>\$ (28,683)</b>

Based on the Company's net exposure to US denominated instruments at December 31, 2018 and December 31, 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.

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

(b) Credit Risk

The Company does not believe it is exposed to any significant concentration of credit risk. However, as disclosed in Note 17, the Company earns a significant amount of revenue from a few customers. As at December 31, 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 December 31, 2018, the Company's allowance for doubtful accounts was \$Nil (June 30, 2018 - \$Nil) and bad debts expense amounted to a recovery of \$Nil (December 31, 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 December 31, 2018, the Company has current liabilities of \$2,724,863 (June 30, 2018 - \$3,075,151) due within 12 months and cash of \$967,038 (June 30, 2018 – bank indebtedness of \$59,956). As at December 31, 2018, the Company has a working capital deficiency of \$1,007,522 (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.

**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 periods ended December 31, 2018 and December 31, 2017.

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**15. 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 16(b)).

- (a) Amounts due to related parties at December 31, 2018 is \$2,061,915 (June 30, 2018 - \$1,995,990) and is comprised of the following:

	<b>December 31, 2018 (Unaudited)</b>	June 30, 2018 (Audited)
Due to Directors	\$ 72,000	\$ 48,000
Due to Committee Chairpersons	18,000	12,000
Due to Chief Executive Officer – Viraf Kapadia <sup>(i)</sup>	1,797,991	1,706,546
Due to Chief Operating Officer – Jean-Louis Larmor	173,924	224,924
Due to Chief Financial Officer – Randy Koroll	-	4,520
	<b>\$ 2,061,915</b>	<b>\$ 1,995,990</b>

- (i) \$1,988,147 (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 December 31, 2018 was \$51,053 (December 31, 2017 – \$40,488).

All amounts are unsecured and are due on demand.

- (b) The Company also owes \$9,313 (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.
- (c) Compensation to key management personnel, directors and committee chairpersons included in general and administrative expenses in the interim condensed consolidated statement of comprehensive loss was as follows for the periods ended December 31:

	<b>December 31, 2018 (Unaudited)</b>	December 31, 2017 (Unaudited)
Chief Executive Officer	\$ 129,750	\$ 141,000
Chief Operating Officer	93,000	123,750
Chief Financial Officer	21,000	12,000
Board of Director fees	24,000	24,000
Committee Chairperson fees	6,000	12,000
Interest paid to Chief Executive Officer	51,053	41,488
<b>Total at December 31, 2018</b>	<b>\$ 324,803</b>	<b>\$ 354,238</b>

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**16. COMMITMENTS AND CONTINGENCIES**

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

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

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

**17. SIGNIFICANT CUSTOMER**

During the period ended December 31, 2018, 74% (December 31, 2017 – 100%) of the revenue was generated from Star-ISMS sales. During the period ended December 31, 2018, 74% (December 31, 2017 – Nil%) of the revenue recognized during the period was generated from a customer located in the Middle East. During the period ended December 31, 2018, 26% (December 31, 2017 – Nil%) of revenue earned is from repairs and maintenance services on STAR-MMI flat panel displays units.

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**18. EXPENSE DISCLOSURES**

	<b>December 31, 2018 (Unaudited)</b>	December 31, 2017 (Unaudited)
<u>General and Administrative</u>		
Bank charges and interest	\$ 2,516	\$ 2,967
Board and committee fees	30,000	36,000
Insurance	39,961	30,046
Miscellaneous	134,869	129,889
Professional fees	59,099	14,214
Rent	36,000	72,000
Wages	282,110	302,844
<b>Total G&amp;A expenses</b>	<b>\$ 584,555</b>	<b>\$ 587,960</b>
<u>Research and Development</u>		
Amortization expense	9,103	34,117
Research and development costs	102,267	159,497
Travel costs	12,506	5,234
Wages	299,724	334,143
<b>Total R&amp;D expenses</b>	<b>\$ 423,600</b>	<b>\$ 532,991</b>
<u>Marketing and Promotion</u>		
Consultant costs	\$ 273,642	\$ 264,315
Investor relations	40,880	60,000
Travel costs	29,833	38,707
<b>Total M&amp;P expenses</b>	<b>\$ 344,355</b>	<b>\$ 363,022</b>

**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**

On January 21, 2019, the Company announced the appointment of Mr. Michael Homer, P.Eng. ICD.D as Chief Operating Officer of the Company, effective January 14, 2019. He has held senior leadership positions including Executive Vice-President Breconridge, electronics manufacturing services (EMS), President of Americas Operations for Celestica, and Vice President, Honeywell Aerospace Airframe Systems. Along with this role he was also President, Honeywell Canada. He was a member of the Aerospace Association of Canada's (AIAC) Board of Directors, where he represented Honeywell Canada as a Canadian workshare partner on NATO programs. Before joining Honeywell, Mr. Homer had an 11-year career in the automotive industry with Ford Electronics Manufacturing Corporation. Mr. Homer is a Professional Engineer, certified by the Association of Professional Engineers of Ontario and a Certified Director by the Institute of Corporate Directors.

In January 2019, the Company acquired a majority controlling interest in SOLUTIONS ISONEO INC. ("ISONEO") from Finances Gestion & Développement SAS ("FGD"), a French Holding company. ISONEO is a specialised software subsidiary of FGD, developing complex solutions in engineering, simulation and development for Canadian customers. ISONEO was already working closely with Star in the development of Stars' MEDEVAC (STAR-ISAMM™ and STAR-LSAMM™) applications of the patented STAR-A.D.S. ® technology, and on Star's current R&D program with Bombardier. ISONEO be located in Star's new Montreal offices.

The Company has entered into a ten-year lease in November 2018 for new premises located in Brampton, Ontario. The move has taken place and setup is proceeding as scheduled.