

Star Navigation Systems Group Ltd.

Unaudited Interim Consolidated Financial Statements

For the three and six month periods ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

NOTICE TO READER

The accompanying interim 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
May 25, 2021

Star Navigation Systems Group Ltd.
Consolidated Statements of Financial Position
As at December 31, 2020 and June 30, 2020
(Expressed in Canadian dollars)
(Unaudited)

| | December 31, 2020 (Unaudited) | June 30, 2020 (Audited) |
|---|-------------------------------------|-------------------------------|
| Assets | | |
| Current | | |
| Cash | \$ 58,105 | \$ 29,880 |
| Accounts receivable | 4,565 | 22,969 |
| Loan receivable | 31,555 | 31,555 |
| Sales tax recoverable (Note 5) | 278,206 | 238,679 |
| Prepaid expenses and deposits | 206,245 | 206,245 |
| Total current assets | 578,676 | 529,328 |
| Non-current assets | | |
| Property and equipment (Note 6) | 63,755 | 67,797 |
| Right-of-use assets (Note 7) | 821,043 | 872,361 |
| Total non-current assets | 884,798 | 940,158 |
| Total assets | \$ 1,463,474 | \$ 1,469,486 |
| Liabilities and Shareholders' Deficiency | | |
| Current | | |
| Accounts payable and accrued liabilities (Note 10) | \$ 1,036,352 | \$ 1,327,182 |
| Lease liability – current portion (Note 11) | 29,708 | 29,708 |
| Other payables (Note 12) | 205,830 | 205,830 |
| Subscription deposits payable | - | 95,000 |
| Deferred revenue | 167,490 | 167,490 |
| Due to related parties (Note 17) | 2,734,022 | 3,834,522 |
| Total current liabilities | 4,173,402 | 5,659,732 |
| Non-current liabilities | | |
| Lease liability (Note 11) | 979,926 | 988,808 |
| Total liabilities | 5,153,328 | 6,648,540 |
| Shareholders' Deficiency | | |
| Share capital (Note 13) | 42,827,328 | 40,629,718 |
| Contributed surplus (Note 14) | 17,334,280 | 17,344,280 |
| Shares to be issued | 5,900 | 5,900 |
| Deficit | (63,857,362) | (63,148,952) |
| Total shareholders' deficiency | (3,689,854) | (5,179,054) |
| Total Liabilities and Shareholders' Deficiency | \$ 1,463,474 | \$ 1,469,486 |
| <i>Nature of Operations and Going Concern (Note 1)</i> | | |
| <i>Reorganization and Notice of Intention to Make Proposal Events (Note 21)</i> | | |
| <i>Subsequent Events (Note 22)</i> | | |

Approved by the Board

"Gurdip Panaich"

Director (Signed)

"Anoop Brar"

Director (Signed)

Star Navigation Systems Group Ltd.
Interim Consolidated Statements of Loss and Comprehensive Loss
For the three and six month periods ended December 31, 2020 and 2019
(Expressed in Canadian dollars)
(Unaudited)

| | Three months ended December 31, | | Six months ended December 31, | |
|---|------------------------------------|--------------------|----------------------------------|-----------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Revenue (Note 18) | \$ 96,676 | \$ 5,172 | \$ 96,676 | \$ 56,845 |
| Expenses | | | | |
| Cost of inventory consumed | 26,748 | 6,043 | 35,375 | 23,795 |
| General & administrative (Note 19) | 223,486 | 387,044 | 385,735 | 648,459 |
| Marketing & promotion (Note 19) | 54,121 | 22,500 | 138,083 | 27,500 |
| Research & development (Note 19) | 128,556 | 213,676 | 211,406 | 469,061 |
| Foreign exchange loss | (16,717) | - | (16,262) | 1,962 |
| | 416,194 | 629,263 | 754,337 | 1,170,777 |
| Loss from operations | (319,517) | (624,091) | (657,661) | (1,113,932) |
| Other income (expenses) | | | | |
| Interest expense – Lease liability (Note 11) | (25,322) | (25,671) | (50,749) | (51,338) |
| Interest expense (Note 17) | - | (28,067) | - | (54,998) |
| Net loss and comprehensive loss for the period | \$(344,839) | \$(677,829) | \$ (708,410) | \$ (1,220,268) |
| Basic and diluted loss per common share | \$(0.001) | \$(0.001) | \$ (0.001) | \$ (0.002) |
| Weighted average number of common shares outstanding | 553,709,325 | 516,910,393 | 553,709,325 | 516,910,393 |

Star Navigation Systems Group Ltd.
Consolidated Statements of Changes in Shareholders' Deficiency
As at December 31, 2020 and 2019
(Expressed in Canadian dollars)
(Unaudited)

| | Number of common shares | Number of Series I preferred shares | Share capital | Shares to be issued | Contributed surplus | Deficit | Total |
|---|-------------------------------|--|----------------------|------------------------|------------------------|------------------------|-----------------------|
| Balance at June 30, 2019 | 516,048,480 | 615,000 | \$ 40,557,248 | \$ - | \$ 17,293,770 | \$ (60,550,608) | \$ (2,699,590) |
| Issued for cash on private placement (Note 13(a)) | 3,146,667 | - | 118,000 | - | - | - | 118,000 |
| Issued as finder's fees on private placement (Note 13(a)) | 157,333 | - | 5,900 | - | - | - | 5,900 |
| Value allocated to warrants as part of private placement (Note 13(a)) | - | - | (166,125) | - | 166,125 | - | - |
| Share issuance costs (Note 13(a)) | - | - | (5,900) | - | - | - | (5,900) |
| Net loss for the period | - | - | - | - | - | (1,220,268) | (1,220,268) |
| Balance at December 31, 2019 | 519,352,480 | 615,000 | \$ 40,509,123 | \$ - | \$ 17,459,895 | \$ (61,770,876) | \$ (3,801,859) |
| Balance at June 30, 2020 | 519,353,432 | 615,000 | \$ 40,629,718 | \$ 5,900 | \$ 17,334,280 | \$ (63,148,952) | \$ (5,179,054) |
| Issued for cash on private placement (Note 13(c)) | 41,634,000 | - | 1,040,850 | - | - | - | 1,040,850 |
| Issued as finder's fees on private placement (Note 13(c)) | 4,163,400 | - | 104,085 | - | - | - | 104,085 |
| Issued as shares for debt | 57,838,000 | - | 1,156,760 | - | - | - | 1,156,760 |
| Value allocated to warrants as part of private placement (Note 13(d)) | - | - | - | - | - | - | - |
| Share issuance costs (Note 13(c)) | - | - | (104,085) | - | - | - | (104,085) |
| Net loss for the period | - | - | - | - | - | (708,410) | (708,410) |
| Balance at December 31, 2020 | 622,975,832 | 615,000 | \$ 42,827,328 | \$ 5,900 | \$ 17,334,280 | \$ (63,857,362) | \$ (3,689,854) |

Star Navigation Systems Group Ltd.
Interim Consolidated Statements of Cash Flows
For the three and six month periods ended December 31, 2020 and 2019
(Expressed in Canadian dollars)
(Unaudited)

| | 2020 | 2019 |
|---|------------------|--------------------|
| Operating activities | | |
| Net loss | \$ (708,410) | \$ (1,220,268) |
| Items not affecting cash: | | |
| Amortization of property and equipment | 8,725 | 11,876 |
| Depreciation of right-of-use assets | 51,318 | 51,318 |
| | (648,367) | (1,157,074) |
| Changes in non-cash working capital items: | | |
| Accounts receivable | 18,403 | 231,329 |
| Sales tax recoverable | (39,527) | (21,701) |
| Prepaid expenses and deposits | - | (73,248) |
| Accounts payable and accrued liabilities | (290,832) | 249,869 |
| Deferred revenue | - | 32,929 |
| Net cash provided by operating activities | (960,323) | (737,896) |
| Investing activities | | |
| Purchase of property and equipment | (4,683) | - |
| Net cash provided by investing activities | (4,683) | - |
| Financing activities | | |
| Loan payable | (1,251,760) | 385,310 |
| Lease liability | (8,879) | 338 |
| Due to related parties | 56,260 | 361,846 |
| Issuance of common shares (net of share issuance costs) | 2,197,610 | 118,000 |
| Net cash provided by financing activities | 993,231 | 865,694 |
| Net change in cash | 28,225 | 127,988 |
| Cash (Bank indebtedness), beginning of period | 29,880 | (91,046) |
| Cash, end of period | \$ 58,105 | \$ 36,942 |
| Supplemental Disclosure | | |
| Interest paid | \$ 50,743 | \$ 54,998 |
| Issuance of units for finder's fees | \$ 104,085 | \$ - |

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 unaudited interim 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 \$708,410 for the period ended December 31, 2020 (December 31, 2019 – \$1,220,268), has an accumulated deficit of \$63,857,362 (June 30, 2020 - \$63,148,952) and has negative working capital of \$3,594,727 (June 30, 2020 – \$5,130,404). 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 unaudited interim 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 unaudited interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The unaudited interim consolidated financial statements for the period ended December 31, 2020 were authorized for issue by the Board of Directors on May 21, 2021.

(b) Basis of Measurement

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

Star Navigation Systems Group Ltd.
Notes to Interim Consolidated Financial Statements
December 31, 2020
(Expressed in Canadian dollars)
(Unaudited)

2. BASIS OF PRESENTATION (Cont'd)

(d) Basis of Consolidation

These unaudited interim consolidated financial statements include the accounts of the Company, and its wholly owned subsidiaries, Star Navigation Systems Inc. ("Star"), Star Navigation Systems (Quebec) Inc., and Star Navigation Systems (U.K) Ltd. and its non-wholly owned subsidiary Star-Isonéo Inc. The Company exercises 100% control over each of its subsidiaries and 80% control over its non-wholly owned subsidiary, Star-Isonéo Inc. 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 unaudited interim 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 considered by management in preparing the consolidated financial statements are as follows:

(i) Net realizable value of inventory:

Net realizable value for inventory is determined based on the selling price of the products in the normal course of operations. The selling price is impacted by several factors including, age and condition of the products, technical obsolescence, and market conditions in the customer's industry. Management estimates the selling price of inventory based on first-hand knowledge of the industry and the specific products held in inventory at year-end. These estimates will affect the carrying value of inventory and the amount of cost of goods sold.

(ii) Allowance for doubtful accounts:

Accounts receivable are reviewed for collectability on a weekly basis. Management is required to make judgment whether a receivable balance is collectable based on their relationship with the counterparty and knowledge of the counterparty's financial position. These judgments will affect the reported amount of accounts receivable as well as bad debts expense.

(iii) Useful lives and impairment of property and equipment and intangible assets:

Property and equipment and intangible assets are amortized based on their estimated useful lives, which is the lesser of the economic life or the legal life of the asset. Management reviews the carrying value of these assets annually to determine if all items are still in use or are no longer expected to generate future benefit. These estimates will affect the carrying value of property and equipment and intangible assets and the amount of depreciation and impairment expenses.

2. BASIS OF PRESENTATION (Cont'd)

(e) Critical Accounting Estimates, Judgments, and Assumptions (Cont'd)

(iv) Stock-based compensation expense:

The Company uses the Black-Scholes option pricing model to determine the fair value of options in order to calculate stock-based compensation expense. The Black-Scholes model involves six key inputs to determine the fair value of an option: risk-free interest rate, exercise price, market price at the date of issue, expected dividend yield, expected life, and expected volatility. Certain of the inputs are estimates that involve considerable judgment and are or could be affected by significant factors that are out of the Company's control. The Company is also required to estimate the future forfeiture rate of options based on historical information in its calculation of stock-based compensation expense.

(v) Valuation of warrants:

The Company uses the Black-Scholes option pricing model to calculate the value of warrants issued as part of the Company's private placements. The Black-Scholes model requires six key inputs to determine a value for a warrant: risk free interest rate, exercise price, market price at date of issue, expected dividend yield, expected life and expected volatility. Certain of the inputs are estimates which involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control. For example, a longer expected life of the warrant or a higher volatility number used would result in an increase in the warrant value.

The significant areas of judgment considered by management in preparing the consolidated financial statements are as follows:

(i) Going concern:

The Company's management has made an assessment of the Company's ability to continue as a going concern and the consolidated financial statements continue to be prepared on a going concern basis. However, management does not believe the Company has sufficient cash on hand to meet the Company's operating expenditures beyond June 30, 2020 which may cast significant doubt upon the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

(ii) Impairment of goodwill:

Determining whether goodwill is impaired requires firstly the identification of indicators of impairment and if any are found, a calculation of the value in use of the cash generating units ("CGU") to which goodwill has been allocated. The identification of indicators of impairment requires management to exercise its judgment in assessing the CGU. The value in use calculation requires management to estimate the future cash flows expected to arise from the CGU and determination of a suitable discount rate in order to calculate present value. These estimates will affect the reported amounts for goodwill and impairment expense.

2. BASIS OF PRESENTATION (Cont'd)

(e) Critical Accounting Estimates, Judgments, and Assumptions (Cont'd)

(iii) Deferred tax assets:

Deferred tax assets are recognized in respect of tax losses and other temporary differences to the extent it is probable that taxable income will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized based upon the likely timing and level of future taxable income together with future tax planning strategies.

3. SIGNIFICANT ACCOUNTING POLICIES

Inventory

The Company's inventory consists of STAR-ISMS® units and STAR-MMI parts inventory. Inventory is valued at the lower of cost or net realizable value. Cost is determined using the weighted average cost method and includes the cost of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Property and Equipment

Property and equipment are recorded at cost less accumulated amortization and accumulated impairment losses, if any.

Amortization is provided at rates designed to amortize the cost of the assets over their estimated useful lives as follows:

| | |
|--|------------------------------------|
| Leasehold improvements | - 5 years, straight-line |
| Furniture and equipment | - 20% per annum, declining balance |
| Computer equipment and software | - 50% per annum, declining balance |
| Computer equipment under finance lease | - 50% per annum, declining balance |

Intangible Assets

(a) License Rights

The Company owns the exclusive, worldwide license to the patented technology upon which its STAR-ISMS® product is based. Payment in full in respect of the purchase of the license rights has been made. Ongoing costs represent out-of-pocket costs for various license applications and processing. Costs directly attributable to the license rights are amortized on a straight-line basis over the estimated useful life of 5 years. Costs of renewals of licenses in foreign jurisdictions are amortized over the period of renewal.

(b) Star-MMI Technology and Patents

Costs directly related to the Company's patents have been capitalized and are being amortized on a straight-line basis over their estimated useful life of 7 years.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(c) Website Costs

Costs directly related to the Company's website design have been capitalized and are being amortized on a straight-line basis over their estimated useful life of 3 years.

(d) GUI System

The GUI system will allow STAR-ISMS® customers to view the airline flights and receive end of flight reports. This product was not 100% completed at September 30, 2020 and therefore no amortization was taken in 2021.

(e) STAR-ISMS® and Peripherals

Costs related to the STAR-ISMS® and Peripherals that are capitalized, are amortized on a straight-line basis over their estimated useful life of 3 years.

(f) Goodwill

Goodwill is the amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their assigned values. Goodwill is allocated as of the date of the business combination to the CGU that are expected to benefit from the business combination. Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired.

Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost and is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a term of 12 months or less. The Company recognizes the lease payments associated with these leases as an operating expense on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Research and Development Expenditures

Research and development expenses represent costs incurred for development and certification of the Company's STAR-ISMS® and its peripherals. Research costs are expensed as incurred. Expenditures during the development phase are capitalized to intangible assets if the Company can demonstrate all of the following criteria: (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale, (ii) its intention to complete the intangible asset and use or sell it, (iii) its ability to use or sell the intangible asset, (iv) how the intangible asset will generate probable future economic benefits, (v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and (vi) its ability to measure reliably the expenditure attributable to the intangible asset during its development; otherwise, they are expensed as incurred.

Revenue Recognition

Revenue from repairs and maintenance of STAR-MMI flat panel displays units are recognized when the unit has been repaired and shipped to the customer. See Note 19 for discussion on customer dependency. The Company recognizes revenue at the time persuasive evidence of an arrangement exists, the price is fixed and determinable, the delivery has occurred, and collectability is reasonably assured. Revenues from the sale of the Company's STAR-ISMS® are recognized when the installation of the system is complete, defined to be when the related equipment has been installed in a customer's aircraft or transportation vehicle, tested and accepted by the customer, and has received the necessary regulatory approvals. Installations are generally conducted by customers under the Company's management and supervision. In the event the customer chooses to manage the installation without the Company's supervision, revenues are recognized when the product is delivered to the customer.

Revenues from airtime services are recognized as the services are performed based on airtime used by the customer. The customer is billed at the end of each month.

In the event that the Company's STAR-ISMS® and airtime are sold as a bundled package, the Company enters into transactions that represent multiple-element arrangements. These multiple-element arrangements are assessed to determine whether they can be sold separately in order to determine if they can be treated as more than one unit of accounting or element for the purpose of revenue recognition. When there are multiple elements or units of accounting in an arrangement, the arrangement consideration is allocated to the separate units of accounting or elements on a relative fair value basis, as determined by reliable objective evidence of fair value. Objective evidence of fair value is based on the price charged when the elements are sold separately, which is in accordance with the Company's standard price list. If elements cannot be sold separately, revenue recognition is deferred until all elements have been delivered.

Foreign Exchange

Monetary assets and liabilities denominated in foreign currencies are translated at the period end exchange rate. Non-monetary assets and liabilities as well as revenue and expense transactions denominated in foreign currencies are translated at the rate prevailing at the time of the transaction. Translation gain or loss adjustments are recognized in the period in which they occur.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Provisions

A provision is recognized on the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Share Capital

Common shares and preferred shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share purchase options are recognized as a deduction from equity. When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a deduction from total equity.

Loss Per Share

Basic loss per share is calculated by dividing the net loss available to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the net loss attributable to common shareholders and the weighted average number of common shares outstanding, for the effects of all dilutive potential common shares, which comprise share options and warrants issued by the Company. The outstanding share options and warrants are not included in the diluted net loss per common share as they are anti-dilutive for all periods presented.

Stock-Based Compensation and Other Stock-Based Payments

The Company applies a fair value-based method of accounting to all stock-based payments. Accordingly, stock-based payments for employees are measured at the fair value of the equity instruments issued and stock-based payments for non-employees are measured at the fair value of the goods or services received, unless the fair value cannot be estimated reliably. In cases where the fair value cannot be estimated reliably, the Company measures these transactions by reference to the fair value of the equity instruments granted. Each tranche is considered a separate award with its own vesting period and fair value. Stock-based compensation is charged to the statement of comprehensive loss over the tranche's vesting period and the offset is credited to contributed surplus. Consideration received upon the exercise of stock options is credited to share capital and the related contributed surplus is transferred to share capital.

Warrants

For transactions involving the issuance of warrants, the Company measures these transactions by reference to the fair value of the equity instruments granted. In the case of unit placements, the Company uses the Black-Scholes option pricing model to calculate the fair value of warrants issued. The proceeds from the issuance of units is allocated between common shares and warrants on a pro-rata basis based on relative fair values. Share issuance costs incurred in connection with the issuance of share capital are netted against the proceeds received.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except for items recognized directly in equity or in other comprehensive loss.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in net earnings in the year of change.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting year the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Financial Instruments

Recognition and Derecognition

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are derecognized when the rights to receive cash flows have expired or substantially all risks and rewards of ownership have been transferred.

Classification

Financial assets and liabilities are classified in the following measurement categories: i) those to be measured subsequently at fair value (either through profit or loss or through other comprehensive income), and ii) those to be measured subsequently at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at fair value through profit or loss. For financial assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income. Classification of financial assets or financial liabilities at fair value through either profit or loss or other comprehensive income, is an irrevocable designation at the time of recognition.

Financial assets are reclassified when, and only when, the Company's business model for managing those assets changes. Financial liabilities are not reclassified.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial Instruments (Cont'd)

The Company has implemented the following classifications:

Cash and accounts receivable are classified as subsequently measured at amortized cost.

Bank indebtedness, accounts payable and accrued liabilities, other payables, subscription deposits payable, and due to related parties are classified as other financial liabilities and are subsequently measured at amortized cost using the effective interest method. Interest expense is recorded in profit or loss.

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial instruments not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issuance of that instrument. Transaction costs of financial instruments with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest are measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any change taken through profit or loss or other comprehensive income or loss.

Impairment

The Company assesses all information available, including on a forward-looking basis the expected credit losses associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is significant increase in credit risk, the Company compares the risk of default occurring as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information.

Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment (Cont'd)

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in the statement of comprehensive loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the statement of comprehensive loss.

Non-financial assets

Impairment tests on intangible assets with indefinite useful economic lives and intangible assets with definite useful lives that have not been put into use yet are undertaken annually at the financial year-end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of its value in use and fair value less costs of disposal, the asset is written down to its recoverable amount.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets.

An impairment loss in respect of other assets is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Recent Accounting Pronouncements

The following are IFRS changes that have been issued by the IASB, which may affect the Company, but are not yet effective:

In May 2020, the IASB published Annual Improvements to IFRS Standards 2019–2020 Cycle, containing the following amendments to IFRS. These amendments are effective for annual periods beginning on or after January 1, 2022.

IFRS 1, First-time Adoption of International Financial Reporting Standards – The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs.

IFRS 9, Financial Instruments – The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

IAS 41, Agriculture – The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. This will ensure consistency with the requirements in IFRS 13.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Recent Accounting Pronouncements (Cont'd)

The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated financial statements or whether to early adopt any of the new requirements.

4. ADOPTION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

IFRS 16 - Leases

IFRS 16, *Leases* (“IFRS 16”), sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, the customer (“lessee”) and the supplier (“lessor”). This replaces IAS 17, *Leases*, and related interpretations. IFRS 16 provides revised guidance on identifying a lease and for separating lease and non-lease components of a contract. IFRS 16 introduces a single accounting model for all leases and requires a lessee to recognize (i) right-of-use assets and lease liabilities for leases with terms of more than 12 months, unless the underlying asset is of low value; and (ii) depreciation of lease assets separately from interest on lease liabilities on the consolidated statements of loss and comprehensive loss.

Under IFRS 16, lessor accounting for operating and finance leases is substantially unchanged. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15.

The guidance allows for either a full retrospective or modified retrospective transition method. The Company has selected to apply the modified retrospective transition method. Further, the Company has selected to apply the practical expedients to (i) grandfather the assessment of which transactions are leases; (ii) recognition exemption of short-term leases; and (iii) recognition exemption leases of low-value items. From January 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

4. ADOPTION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

IFRS 16 - Leases

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee’s incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Adjustments recognized on adoption of IFRS 16

On January 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach, with the cumulative effect of initially applying the new standard recognized in deficit on January 1, 2019. The comparative figures for fiscal 2019 have not been restated. On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases, which had previously been classified as ‘operating leases’ under the principles of IAS 17, *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of January 1, 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities was 10%. The lease commitments expire in December 2028.

The following table reconciles the Company’s operating lease commitments as at December 31, 2018 as previously disclosed in the audited consolidated financial statements of the Company, to the lease liability recognized on initial application of IFRS 16 on January 1, 2019:

| | | |
|--|----|-----------|
| Operating lease commitments as at December 31, 2018 | \$ | 1,711,374 |
| Effect of discounting using the incremental borrowing rate | | (685,067) |
| Lease liability recognized as at January 1, 2019 | \$ | 1,026,307 |

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous; and
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

The adoption of the new standard affected the following items in the statement of financial position on January 1, 2019:

- Right-of-use assets – increase by \$1,026,307
- Lease liability – increase by \$1,026,307

Star Navigation Systems Group Ltd.
Notes to Interim Consolidated Financial Statements
December 31, 2020
(Expressed in Canadian dollars)
(Unaudited)

5. 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, 2020 amounted to \$278,206 (June 30, 2020 - \$238,679).

6. PROPERTY AND EQUIPMENT

| | Furniture and Equipment | Computer Equipment and Software | Total |
|-------------------------------------|-------------------------------|---------------------------------------|-------------------|
| Cost | | | |
| Balance at June 30, 2019 | \$ 278,822 | \$ 475,087 | \$ 753,909 |
| Additions | 45,985 | 14,988 | 60,973 |
| Balance at June 30, 2020 | \$ 324,807 | \$ 490,075 | \$ 814,882 |
| Additions | - | 4,683 | 4,683 |
| Balance at December 31, 2020 | \$ 324,807 | \$ 494,758 | \$ 819,565 |
| Accumulated Amortization | | | |
| Balance at June 30, 2019 | \$ 251,400 | \$ 471,932 | \$ 723,332 |
| Amortization for the year | 14,681 | 9,072 | 23,753 |
| Balance at June 30, 2020 | \$ 266,081 | \$ 481,004 | \$ 747,085 |
| Amortization for the period | 5,873 | 2,852 | 8,725 |
| Balance at December 31, 2020 | \$ 271,954 | \$ 483,856 | \$ 755,810 |
| Carrying Amounts | | | |
| At June 30, 2020 | \$ 58,726 | \$ 9,071 | \$ 67,797 |
| At December 31, 2020 | \$ 52,853 | \$ 10,902 | \$ 63,755 |

Star Navigation Systems Group Ltd.
Notes to Interim Consolidated Financial Statements
December 31, 2020
(Expressed in Canadian dollars)
(Unaudited)

7. RIGHT-OF-USE ASSETS

The Company has recognized a right-of-use asset in respect of its premises lease as described in Note 4. The following is a continuity of the right-of-use asset:

| | | December 31, 2020 (Unaudited) | | June 30, 2020 (Audited) |
|------------------------------------|-----------|--|-----------|-------------------------------|
| Cost | | | | |
| Balance at June 30 | \$ | 1,026,307 | \$ | 1,026,307 |
| Additions | | - | | - |
| Balance | \$ | 1,026,307 | \$ | 1,026,307 |
| Accumulated Depreciation | | | | |
| Balance at January 1, 2019 | \$ | 153,946 | \$ | 51,315 |
| Depreciation of right of use asset | | 51,318 | | 102,631 |
| Balance | \$ | 205,264 | \$ | 153,946 |
| Carrying Amounts | | | | |
| At June 30, 2020 | | | \$ | 872,361 |
| At December 31, 2020 | \$ | 821,043 | | |

8. INTANGIBLE ASSETS

(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.

(b) On January 1, 2019 the Company completed the acquisition of 80% of the issued and outstanding shares of Solutions ISONEO Inc. ("ISONEO"), a private corporation incorporated in the province of Quebec. The cost of this acquisition was \$80,000, which was paid through the issuance of 686,106 common shares of the Company (the "Shares") at a fair value of \$41,166, as well as a cash payment of \$40,000. The transaction was measured based on the fair value of the shares issued and cash paid, in the absence of a reliable measurement of the fair value of the shares of ISONEO acquired. The Shares were subject to a seven (7) month hold period. In addition, the shares are also subject to the terms and conditions of an Escrow Agreement which governs the ability of the vendor to sell the shares prior to July 31, 2019. The excess cost of the acquired business over the fair value of the related net identifiable tangible and intangible assets acquired was allocated to goodwill.

Goodwill is not amortized but is tested for impairment at least annually. The Company has identified ISONEO as the CGU used in assessing the fair value of its goodwill. In performing a recoverability test for goodwill impairment, management compares the status of the CGU as at the end of the current fiscal year with the status of ISONEO when it was acquired. To do so, management examines the amount of cash generated from revenues of ISONEO.

As at June 30, 2019, the amount of revenue earned from ISONEO was significantly lower than when first acquired. Accordingly, for the year ended June 30, 2019, the Company concluded that a provision for goodwill impairment is required for the full amount of the goodwill.

Star Navigation Systems Group Ltd.
Notes to Interim Consolidated Financial Statements
December 31, 2020
(Expressed in Canadian dollars)
(Unaudited)

9. BANK CREDIT FACILITY

The Company utilizes a revolving line of credit (“LOC”) from The Toronto-Dominion Bank (“TD”) 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, 2020 and June 30, 2020. The LOC is presented on a net basis in cash on the statements of financial position. The LOC has been canceled by TD due to the Company being placed into receivership on December 11, 2019. (See Note 22 – Reorganization and Notice of Intention to Make Proposal Events).

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | December 31, 2020 (Unaudited) | June 30, 2020 (Audited) |
|---------------------|--|-------------------------------|
| Trade payables | \$ 317,178 | \$ 444,304 |
| Accrued liabilities | 719,174 | 882,881 |
| | \$ 1,036,352 | \$ 1,327,185 |

11. LEASE LIABILITY

The Company leases its premises under a lease agreement expiring on December 31, 2028, which was recognized at a discount rate of 10%. The following is a continuity of activity in leases during the year:

| | December 31, 2020 (Unaudited) | June 30, 2020 (Audited) |
|-------------------------------|--|-------------------------------|
| Opening balance | \$ 1,018,516 | \$ 1,026,629 |
| Payments made | (59,625) | (110,625) |
| Interest on lease liabilities | 50,743 | 102,512 |
| Balance | 1,009,634 | 1,018,516 |
| Current portion | (29,708) | (29,708) |
| Long-term | \$ 979,926 | \$ 988,808 |

The following table outlines the total contractual undiscounted lease payments at December 31, 2020:

| | |
|--|---------------------|
| 2021 | \$ 70,878 |
| 2022 | 167,190 |
| 2023 | 192,624 |
| 2024 | 192,624 |
| Thereafter | 866,808 |
| Less: future interest expense | (480,490) |
| Total lease liabilities at December 31, 2020 | \$ 1,009,634 |

Star Navigation Systems Group Ltd.
Notes to Interim Consolidated Financial Statements
December 31, 2020
(Expressed in Canadian dollars)
(Unaudited)

12. OTHER PAYABLES

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

13. 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) On September 11, 2019, the Company closed a non-brokered private placement issuing 3,146,667 units of the Company (the "Units") at a price per unit of \$0.0375 for gross proceeds of \$118,000. Each unit consists of one common share in the capital of the Company and one warrant. Each warrant entitles the holder to purchase one additional common share of the Company at \$0.05 cents per warrant exercised. The warrants are exercisable during the two (2) year period from the date of issue. In addition, the Company has agreed to pay finder's fees in the amount of 157,333 units valued at \$5,900.
- (b) During the year ended June 30, 2020, the Company issued a total of 145,285 common shares valued at \$6,780, to a consultant of the Company for services rendered.
- (c) On September 1, 2020, the Company closed a non-brokered private placement issuing 41,634,000 units of the Company (the "Units") at a price per unit of \$0.025 for gross proceeds of \$1,040,850. Each unit consists of one common share in the capital of the Company and one warrant. Each warrant entitles the holder to purchase one additional common share of the Company at \$0.05 cents per warrant exercised. The warrants are exercisable during the two (2) year period from the date of issue. In addition, the Company has agreed to pay finder's fees in the amount of 4,163,400 units valued at \$104,085.
- (d) On September 1, 2020, the Company closed a common shares for debt transaction issuing 57,838,000 units of the Company (the "Units") at a price per unit of \$0.02 for gross proceeds of \$1,156,760. Each unit consists of one common share in the capital of the Company and one warrant. Each warrant entitles the holder to purchase one additional common share of the Company at \$0.05 cents per warrant exercised. The warrants are exercisable during the two (2) year period from the date of issue.

Star Navigation Systems Group Ltd.
Notes to Interim Consolidated Financial Statements
December 31, 2020
(Expressed in Canadian dollars)
(Unaudited)

14. 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, 2020 | 6,470,000 | | \$0.09 |
| Options expired | (1,800,00) | \$0.07-\$0.15 | |
| Balance at December 31, 2020 | 4,670,000 | | \$0.09 |
| Exercisable at December 31, 2020 | 4,670,000 | | \$0.09 |

As at December 31, 2020, 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 |
|----------------------|------------------------|----------------------------|-----------------------|--------------------|
| March 31, 2016 | 1,350,000 | 1,350,000 | \$0.05 | March 1, 2021 |
| October 21, 2016 | 920,000 | 920,000 | \$0.05 | March 1, 2021 |
| January 21, 2019 | 1,100,000 | 1,100,000 | \$0.10-\$0.15 | January 21, 2021 |
| January 21, 2019 | 1,300,000 | 1,300,000 | \$0.10 | January 14, 2023 |
| | 4,670,000 | 4,670,000 | | |

Warrants

| | Number | Weighted-Average Exercise Price | Expiry Date |
|-------------------------------------|--------------------|--|--------------------|
| Balance at June 30, 2019 | 82,276,000 | \$0.08 | |
| Issued | 3,304,000 | \$0.05 | September 11, 2021 |
| Balance at June 30, 2020 | 85,580,000 | \$0.07 | |
| Issued | 103,635,400 | \$0.05 | September 1, 2022 |
| Balance at December 31, 2020 | 189,215,400 | \$0.06 | |

Star Navigation Systems Group Ltd.
Notes to Interim Consolidated Financial Statements
December 31, 2020
(Expressed in Canadian dollars)
(Unaudited)

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

As at December 31, 2020, the Company had warrants issued and outstanding as follows:

| | Warrants Issued | Exercise Price | Expiry Date |
|--------------------|------------------------|-----------------------|--------------------|
| April 13, 2016 | 31,801,333 | \$0.07 | April 2, 2021 |
| April 27, 2019 | 3,766,667 | \$0.07 | April 2, 2021 |
| September 5, 2019 | 46,708,000 | \$0.07 | September 5, 2020 |
| September 11, 2019 | 3,304,000 | \$0.05 | September 11, 2021 |
| September 1, 2020 | 45,797,400 | \$0.05 | September 1, 2022 |
| September 1, 2020 | 57,838,000 | \$0.05 | September 1, 2022 |
| | 189,215,400 | | |

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

| | December 31, 2020 (Unaudited) | June 30, 2020 (Audited) |
|-------------------------|--|-------------------------------|
| Expected dividend yield | - | Nil |
| Risk free interest rate | - | 1.33% |
| Expected volatility | - | 122% |
| Expected life | - | 2.0 years |
| Share price | - | \$0.035 |

Expected volatility is based on historical data.

As a result of using the above assumptions, the Black-Scholes calculation resulted in an allocation to contributed surplus of \$Nil for the period ended December 31, 2020 (June 30, 2020 - \$40,510).

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

| | December 31, 2020 (Unaudited) | December 31, 2020 (Unaudited) |
|--|--|-------------------------------------|
| Numerator: | | |
| Net loss for the period | \$ (708,410) | \$ (1,220,268) |
| Denominator: | | |
| Weighted average number of common shares outstanding - basic | 553,709,325 | 519,353,480 |
| Weighted average number of common shares outstanding - diluted | 553,709,325 | 519,353,480 |
| Loss per common share based on net loss for the period: | | |
| Basic | \$ (0.001) | \$(0.001) |
| Diluted | \$ (0.001) | \$(0.001) |

Star Navigation Systems Group Ltd.
Notes to Interim Consolidated Financial Statements
December 31, 2020
(Expressed in Canadian dollars)
(Unaudited)

14. 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, 2020:

| | December 31, 2020 (Unaudited) | June 30, 2020 (Audited) |
|---|--|-------------------------------|
| Common shares outstanding | 622,975,832 | 519,340,432 |
| Warrants to purchase common shares | 185,215,400 | 85,580,000 |
| Stock options to purchase common shares | 4,670,000 | 6,470,000 |
| Fully diluted common shares outstanding | 812,861,232 | 611,390,432 |

15. MANAGEMENT OF CAPITAL

The Company considers its capital to include the components of equity attributable to common shareholders which amounts to a deficit of \$3,689,854 at December 31, 2020 (June 30, 2020 – \$5,179,054) 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 management of capital strategy during the period ended December 31, 2020.

16. 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:

| | December 31, 2020 (Unaudited) | June 30, 2020 (Audited) |
|---------------------|--|-------------------------------|
| Cash | \$ 22,535 | \$ 57 |
| Accounts receivable | 4,566 | 8,041 |
| Accounts payable | (73,154) | (70,169) |
| | \$ (46,053) | \$ (62,071) |

Based on the Company's net exposure to US denominated instruments at December 31, 2020 and June 30, 2020, 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.

16. 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 18, the Company earns a significant amount of revenue from a few customers. As at December 31, 2020, approximately \$Nil (June 30, 2020 - \$8,041) of the Company's receivables were past due the average credit period of 90 days. As at December 31, 2020, the Company's allowance for doubtful accounts was \$Nil (June 30, 2020 - \$69,070) and bad debts expense amounted to \$Nil (December 31, 2019 – \$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.

At December 31, 2020, the Company has current liabilities of \$4,173,402 (June 30, 2020 - \$5,659,732) due within 12 months and cash of \$58,105 (June 30, 2020 – \$29,880). At December 31, 2020, the Company has a working capital deficiency of \$3,594,727 (June 30, 2020 - \$5,130,404) 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, 2020.

17. RELATED PARTY TRANSACTIONS

The Company has accrued and carries a balance on its unaudited interim consolidated financial statements of amounts due to related parties. The amounts represent compensation accrued with respect to salary compensation for its officers, and 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, 2020 and 2019.

Star Navigation Systems Group Ltd.
Notes to Interim Consolidated Financial Statements
December 31, 2020
(Expressed in Canadian dollars)
(Unaudited)

17. RELATED PARTY TRANSACTIONS (Cont'd)

- (a) Amounts due to related parties at December 31, 2020 is \$2,734,022 (June 30, 2020 - \$3,834,522) and is comprised of the following:

| | December 31, 2020 (Unaudited) | June 30, 2020 (Audited) |
|--|--|-------------------------------|
| Due to Directors | \$ 265,000 | \$ 214,740 |
| Due to Committee Chairpersons | 57,000 | 51,000 |
| Due to Former Chief Executive Officer – Viraf Kapadia ⁽ⁱ⁾ | 2,218,428 | 2,218,428 |
| Due to Former Chief Operating Officer – Jean-Louis Larmor | 193,594 | 193,594 |
| Due to Shareholders ⁽ⁱⁱ⁾ | - | 1,156,760 |
| | \$ 2,734,022 | \$ 3,834,522 |

- (i) \$2,218,428 (June 30, 2020 - \$2,218,428) of the balance bears interest at 5% per annum; Interest accrued on the loan payable to the CEO for the period ended December 31, 2020 was \$Nil (June 30, 2020 – \$54,998). All amounts are unsecured and are due on demand.
- (ii) During the year, various shareholders of the Company advanced funds totaling \$1,156,760 to the Company for working capital purposes. The amounts due to shareholders are unsecured, non-interest bearing and are without any specified terms of repayment. Subsequent to the year end, the Company agreed to convert the amounts due to shareholders to common shares of the Company through the issuance of 57,838,000 common shares at a price of \$0.02 per common share. (See Note 24 – Subsequent Events).
- (b) The Company also owes \$5,700 (June 30, 2020 - \$5,700) in credit card debt that is guaranteed by the former CEO and Chairman of the Board – Viraf Kapadia and is included in accounts payables and accrued liabilities.
- (c) Compensation to key management personnel, directors and committee chairpersons included in the consolidated statement of loss and comprehensive loss was as follows for the period ended December 31:

| | December 31, 2020 (Unaudited) | December 31, 2019 (Unaudited) |
|----------------------------|--|-------------------------------------|
| Chief Executive Officer | \$ 44,850 | \$ 123,484 |
| Chief Operating Officer | 18,488 | 93,000 |
| Chief Financial Officer | 45,000 | 15,000 |
| Board of Director fees | 50,000 | 31,000 |
| Committee Chairperson fees | 8,400 | 11,000 |
| | \$ 166,738 | \$ 328,482 |

Star Navigation Systems Group Ltd.
Notes to Interim Consolidated Financial Statements
December 31, 2020
(Expressed in Canadian dollars)
(Unaudited)

18. SIGNIFICANT CUSTOMER

During the period ended December 31, 2020, 95% (December 31, 2019 – 82%) of the revenue was generated from Star-MMI sales and 95% (December 31, 2019 – 82%) from repairs and maintenance services on STAR-MMI flat panel display units. During the period ended December 31, 2020, 82% (December 31, 2019 – 100%) of the revenue was generated from one customer. During the period ended December 31, 2020, 95% (December 31, 2019 – 82%) of the revenue recognized during the period was generated from customers located in the United States.

19. EXPENSE DISCLOSURES

| General and Administrative | 2020 | 2019 |
|--------------------------------------|------------|------------|
| Accounting fees | \$ 45,000 | \$ 42,495 |
| Bank charges and interest | 51,318 | 51,318 |
| Board and committee fees | 3,614 | 4,960 |
| Depreciation expense (Note 8) | 58,400 | 45,000 |
| Filing and other fees | 13,117 | 38,581 |
| Insurance | 30,884 | 36,263 |
| Office and general | 43,964 | 26,602 |
| Professional fees | 14,186 | 78,017 |
| Rent | 5,000 | 32,965 |
| Wages | 120,252 | 292,258 |
| Total G&A expenses | \$ 385,735 | \$ 648,459 |
| Research and Development | | |
| Amortization expense (Notes 7 and 9) | \$ 8,725 | \$ 11,877 |
| Research and development costs | (5,909) | 95,489 |
| Travel costs | 3,652 | 47 |
| Wages | 204,938 | 361,648 |
| Total R&D expenses | \$ 211,406 | \$ 469,061 |
| Marketing and Promotion | | |
| Consultant costs | \$ 42,027 | \$ 27,500 |
| Investor relations | 54,185 | - |
| Wages | 29,165 | - |
| Travel costs | 12,706 | - |
| Total M&P expenses | \$ 138,083 | \$ 27,500 |

20. 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.

21. REORGANIZATION AND NOTICE OF INTENTION TO MAKE PROPOSAL EVENTS

(a) New Company Management

During the fiscal year 2020, various shareholders, unhappy with the leadership and performance of the Company, requested that a Special Meeting of Shareholders be held. A Special Shareholder Meeting ("Meeting") was held on December 11, 2019, at which the shareholders passed the resolutions proposed in the Concerned Shareholders Proxy Circular.

As a result of the passing of that resolution:

Peter Clausi, Brian Crawford, Birks Bovaird, Ali Jomaa, Stephen Coutts, Zachery Goldenberg, and Randy Hoback were elected as directors of the Company with the support of 99% of the shareholders voting at the Meeting.

A motion to authorize the directors to investigate any and all related party transactions in respect of the Corporation was passed with the support of 99% of the shareholders voting at the Meeting.

At a board of directors' meeting immediately following the Special Shareholder Meeting, Mr. Viraf S. Kapadia was terminated as CEO of the Company and all other positions and the following persons were appointed to management positions:

Peter M. Clausi was appointed Interim Chief Executive Officer; Randy Koroll was appointed Chief Financial Officer and Corporate Secretary; Jean-Louis Larmor was confirmed as Vice-President, Corporate Development; Barney Lassche was appointed as Vice-President, Human Resources; and Birks Bovaird was appointed as the Company's Chairman of the Board.

Bankruptcy

Immediately prior to the Meeting, the former CEO, Mr. Viraf S. Kapadia, purported to file security documents related to a debt he claims was incurred to him by the Company during his tenure as CEO. This alleged debt is part of the related party transactions to be investigated in the shareholder-sanctioned investigations.

(b) Bankruptcy

On December 11, 2019, immediately prior to the Meeting, the former CEO filed a Notice of Intention to Make Proposal ("NOI") under Section 50.4 of the Bankruptcy and Insolvency Act, R.S.C. 1985, c. B-3, as amended (the "BIA"), with respect to the Company. A. Farber & Partners Inc. ("Farber") was appointed as Proposal Trustee (the "Proposal Trustee").

In this process, Mr. Kapadia alleged he was an unsecured creditor of the Corporation mainly in respect of a claim for more than \$2,100,000 for accrued and unpaid salary ("Related Party Debt"). However, the Proposal Trustee did not permit Mr. Kapadia to vote his claimed debt on the basis that Mr. Kapadia was a non-arm's length party pursuant to Canada's Bankruptcy and Insolvency Act.

21. REORGANIZATION AND NOTICE OF INTENTION TO MAKE PROPOSAL EVENTS (Cont'd)

Mr. Kapadia had actually wanted to vote against the Proposal and sought to bankrupt the Corporation with the effect of destroying all shareholder value.

Instead, if approved by the Court, Mr. Kapadia will receive approximately \$55,000 as an unsecured creditor. His alleged secured debt of some \$67,000 has yet to be proven and remains an unresolved issue.

The NOI filing provided an automatic stay of proceedings against the creditors of the Company for a 30-day period thus providing the Company the opportunity to restructure its affairs and formulate a proposal to creditors. During this time, the Company continues to carry on business and is not bankrupt.

On February 14, 2020, at a meeting of creditors, the creditors accepted the Company's formal Proposal to settle outstanding debts. As a result of the meeting, the Proposal Trustee will seek Court approval of the Proposal, which, if approved, will remove approximately \$3.3 million in debt from the Company's balance sheet. Due to the COVID-19 Court closure, the Company has been unable to seek Court approval of the Proposal at this time but intends to do so at the earliest reasonable opportunity.

While Mr. Kapadia has the right to appeal the Proposal Trustee's decision, the Company believes his chances of success on appeal are minimal.

The Company previously brought a motion in the Ontario Superior Court of Justice - Commercial List to enforce the settlement reached with Mr. Kapadia on January 22, 2020. Mr. Kapadia has denied the existence of such a settlement. A significant portion of that settlement involved the Related Party Debt referred to above. Since the Related Party Debt has been extinguished by the creditor meeting, the settlement has become moot and, therefore, the Company has abandoned its motion to enforce the settlement.

On February 24, 2021, The Honourable Mr. Justice Cavanagh of The Ontario Superior Court of Justice (Commercial Court) granted an order approving the proposal put forward by the Company on January 24, 2020 and as approved by the creditors on February 14, 2020.

(c) Cease Trade Order

On November 1, 2019, the Ontario Securities Commission ("OSC") issued a cease trade order (the "CTO" or "FFCTO") against the Company for failing to file certain outstanding continuous disclosure documents in a timely manner.

(d) Injunction

On December 11, 2019, the former CEO, Mr. Kapadia, also brought an Application in the Commercial Court seeking, among other things, an order that the results of the December 11, 2019 meeting be set aside on the basis that the meeting was not properly called. At the same time, he also brought an emergency interlocutory injunction motion seeking to have the previous Board and Mr. Kapadia put back in control of the Company pending the hearing of the Application (the "Toronto Litigation").

Mr. Kapadia's motion for emergency injunctive relief was ultimately adjourned to and heard on December 18, 2019 by the Hon. Madam Justice Conway of the Commercial Court. Her Honour dismissed Kapadia's motion for injunctive relief and ordered that the Application be scheduled for a full hearing on the merits on January 22, 2020 before the Commercial Court.

21. REORGANIZATION AND NOTICE OF INTENTION TO MAKE PROPOSAL EVENTS (Cont'd)

(d) Injunction

Until heard, Her Honour ordered that the Board of Directors elected at the Meeting continue to operate the Company in the ordinary course of business.

The Company and Mr. Kapadia have now reached an agreement which will see Mr. Kapadia's Application dismissed on consent.

(e) Resignation of December Board and Appointment of New Board

The Interim Board of Directors, elected at a Special General Meeting of shareholders held December 11, 2019, consisting of Mr. Birks Bovaird, Director and Chair of the Board, Peter Clausi, Brian Crawford, Ali Jomaa, Stephen Coutts, Zachary Goldenberg, and Randy Hoback, resigned as directors of the Corporation, effective April 30, 2020.

Mr. Gurdip Panaich, Chairman of the Board, Mr. Anoop Brar, Chairman of the Audit Committee, Mr. Jean-Louis Larmor, Dr. Darrin T. Milne, and Mrs. Pawandeep Athwal were appointed directors of the Company effective April 30, 2020, to serve until the next Annual and General Meeting of Shareholders or until their successors are elected or appointed.

(f) Resignation of CEO and Appointment of New CEO

On April 30, 2020, Peter M. Clausi, the Interim Chief Executive Officer resigned and Mr. Jean-Louis Larmor, formerly the Vice President, Corporate Development, and President of the Company's subsidiary, Star-Isonéo Inc., was named Interim Chief Executive Officer. Mr. Jean-Louis Larmor resigned as Interim Chief Executive Officer on July 23, 2020 and Mr. Amir Bhatti was named Chief Executive Officer on September 16, 2020.

22. SUBSEQUENT EVENTS

(a) Lawsuits

On or about October 16, 2020, the CNESST (commission on workplace standards, fairness, health and safety) in Quebec, Canada, on behalf of certain employees, instituted a civil action against the Company and one of its subsidiaries, Star-Isonéo Inc. before the Superior Court in Montreal, Quebec. The CNESST is claiming a total amount of \$390,961.43 against both the Company and Star-Isonéo Inc. The amount consists of unpaid fees of \$3,983.18, unpaid salary of \$306,480.81 and unpaid vacation pay of \$15,427.20. In addition to the above amounts and under Article 114 of the *Act Respecting Labour Standards*, the CNESST is also claiming 20% of the total amount of the claim representing the amount of \$65,160.24, as fees. This is an amount owed directly to the CNESST. The majority of the amounts under the claim above are for periods in 2020, a portion of which are covered by the bankruptcy procedures as outlined above.

On or about November 20, 2020, the CNESST, on behalf of a former employee, instituted a civil action against the Company and its subsidiary, Star-Isonéo Inc. before the Court of Quebec in Montreal, Quebec. The sums claimed amount to \$9,454.55 and represent unpaid wages for the period escalating from March 1, 2020 to April 3, 2020. In addition to the above amount, the CNESST is also claiming 20% of the total amount of the claim representing the amount of \$1,890.91, as fees. This is an amount owed directly to the CNESST.

22. SUBSEQUENT EVENTS (Cont'd)

(a) Lawsuits

This claim represents the second monetary claim filed by the former employee. The former employee is also part of the first action mentioned above, but the amounts claimed in this action are different since they relate to a different period.

On or about October 16, 2020, Mr. Jean-Louis Larmor, the Company's former interim Chief Executive Officer, and Vice-President, Corporate Development filed various complaints against the Company and its subsidiary, Star-Isonéo Inc., including a monetary complaint for amounts owed to Mr. Larmor, a prohibited practice (in accordance with Article 122 of the *Act Respecting Labour Standards*), and a dismissal without just and sufficient cause (in accordance with Article 124 of the *Act Respecting Labour Standards*). At this stage, it is the opinion of the Company's legal counsel that it is not possible to assess the amount of money that these claims represent until further details regarding the amount claimed have been provided by CNESST. With respect to the complaints for prohibited practice and of dismissal, if Mr. Larmor's complaint were to be accepted by the tribunal, he would be entitled to full retroactive salary between the date of his reinstatement and the date of his termination of employment, in addition to other potential damages.

On or about October 19, 2020 and October 27, 2020, two complaints against the Company and its subsidiary, Star-Isonéo Inc. were brought by two former employees. The complaints are for an amount owed to each employee (monetary complaint); and a dismissal without just and sufficient cause (in accordance with Article 124 of the *Act Respecting Labour Standards*).

At this stage, it is the opinion of the Company's legal counsel that it is not possible to assess the amount of money that these complaints represent until further details regarding the amounts claimed have been provided by CNESST. With respect to the complaints for dismissal, if the employee's complaint were to be accepted by the tribunal, the employee would be entitled to retroactive full salary between the date of reinstatement and the date of termination of employment, in addition to other potential damages.

(b) Warrant Repricing and Extensions

On March 30, 2021, the Company announced that, subject to Canadian Securities Exchange approval, it is extending the terms and reducing the exercise prices of the following share purchase warrants.

(i) 46,708,000 share purchase warrants issued pursuant to a private placement announced on September 5, 2018 exercisable at \$0.065 per share purchase warrant and expiring on September 5, 2021 will now expire on September 5, 2023 and be exercisable at \$0.05 per share purchase warrant.

(ii) 3,766,667 share purchase warrants issued pursuant to a private placement announced on April 26, 2018 exercisable at \$0.07 per share purchase warrant and expiring April 2, 2021 will now be extended and expire on April 2, 2023 and be exercisable at \$0.05 per share purchase warrant.

(iii) 3,147,667 share purchase warrants issued pursuant to a private placement announced on September 6, 2019 issued at \$0.05 per share purchase warrant and expiring September 4, 2021 will now be extended and expire on September 4, 2024 and still be exercisable at \$0.05 per share purchase warrant.

23. COVID-19

On January 30, 2020, the World Health Organization declared the coronavirus outbreak ("COVID-19") a "Public Health Emergency of International Concern" and on March 11, 2020, declared COVID-19 a pandemic. The outbreak of COVID-19 has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact they will have on the Company's financial position and results of operations for future periods.

Due to the COVID-19 pandemic and the resulting mandatory closure of businesses in March 2020, and with airline fleets being grounded worldwide, the Company was forced to lay off employees and terminate contractors effective April 6, 2020. Senior management has continued to work on a limited resources basis.

The Company is closely monitoring progress in the fight against the COVID-19 pandemic and the staged safe reopening of business with respect to its Ontario and Quebec operations. As with many companies, Star has utilized this forced hiatus in order to reassess its operational requirements, streamline its product and service delivery methodology and refocus its sales strategy.