

**Star Navigation Systems Group Ltd.  
Management's Discussion and Analysis  
For the years ended June 30, 2020 and June 30, 2019**

**Date – May 25, 2021**

The following management discussion and analysis (“MD&A”) is a review of operations, current financial position and outlook for Star Navigation Systems Group Ltd. (the Company” or “Star”) for the years ended June 30, 2020 and June 30, 2019 and should be read in conjunction with the consolidated audited financial statements for the years ended June 30, 2020 and June 30, 2019. Amounts are reported in Canadian dollars based upon the financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”). Information contained herein is presented as at May 25, 2021.

Certain information in this MD&A or incorporated by reference, and in other public announcements by the Company is forward-looking and is subject to important risks and uncertainties. Words such as “may”, “will”, “believe”, “expect”, “anticipate”, “estimate” and similar expressions identify forward-looking statements. Forward-looking statements may be found in the General Development of the Business, Overview of Products, Operational Milestones, Outlook, Selected Financial Information, Results of Operations, Liquidity and Capital Resources and Overview sections of this MD&A. Forward-looking information includes information concerning the Company’s future financial performance, business strategy, plans, goals and objectives. Forward-looking statements are necessarily based upon estimates and assumptions considered reasonable by management but which are subject to business, economic and competitive uncertainties. Results could differ materially from those projected in forward-looking statements. Aside from its efforts locally in the United States and Canada as well as in Europe, the Company continues to pursue sales and marketing efforts for its main STAR-A.D.S. ® System, STAR-ISAMM™, STAR-LSAMM™, and STAR M.I.™ Division products and variants, either directly or through joint arrangements in North America, the Middle East, South East Asia and developing countries. The Company focusses on airlines, MEDEVAC operators (both land and air) and on avionics integrators. The Company is of the opinion that these geographical areas represent very significant current and future growth potential in terms of passenger miles flown and therefore, demand from operators for technology which will offer enhanced safety and efficiency to their operations. In addition, advances in emergency medical transportation are rapidly evolving and the Company is committed to being a significant part of that evolution.

However, the Company accepts the fact that pursuing opportunities in areas outside North America and Europe potentially subjects it to risks involving political unrest, cultural differences, differing legal environments and business practices, and the significant added expense of travel and accommodation for Company personnel required to be onsite for sales, testing and installation duties. The Company endeavors to mitigate these risks as much as reasonably possible through the judicious use of secure financial instruments, experienced local sales agents and coordinated marketing and travel arrangements. Factors which could cause actual results to differ materially from current expectations include, among other things, the ability of the Company to successfully implement its strategic, sales, research and development and financing initiatives and whether such initiatives will yield the expected benefits.

In addition, the ability of the STAR-A.D.S. ® and STAR- M.M.I.™ Divisions to successfully promote and sell products and services is critical. Competitive conditions in the business in which the Company participates, supply chain interruptions, general economic conditions and normal business uncertainty, fluctuations in foreign currency exchange rates and changes in laws, rules and regulations applicable to the Company in the jurisdictions in which the Company operates are all factors to be taken into consideration. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements, whether as a result of new information, or future events or otherwise, except as may be required by law.

Readers are cautioned that forward-looking statements are not guarantees of future performance.

Further information relating to Star is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **GENERAL DEVELOPMENT OF THE BUSINESS**

Star Navigation Systems Group Ltd. commenced its operations in May 2000 and is listed on the Canadian Securities Exchange (the “CSE”) under the symbol “SNA. It is also listed on the OTCQB under the symbol “SNAVF”

Star Navigation Systems Group Ltd. is a leading-edge Canadian publicly owned technology company. It focuses on providing aerospace and transportation data services solutions along with hardware and software platforms that assist aviation and other transport related operators worldwide. Headquartered in Brampton, Ontario, Star has developed the STAR-ISMS® In-Flight Safety Monitoring System, an aircraft computer that is at the heart of the STAR airborne data service ('STAR-A.D.S.®'). It is the first system in the world that combines in-flight data monitoring, diagnostics and data analysis with real-time secure connections between the aircraft and the ground, using real-time satellite transmission.

The STAR-A.D.S. ® System provides real-time monitoring, data analysis, aircraft health and flight operation status, and real-time position (tracking) information, all of which contribute to aviation safety, reduction of fuel usage and maintenance costs, reduction of carbon footprint, and provides the opportunity for enhanced return on investment for airlines.

The STAR-ISMS® G3 computer was tested and certified for airworthiness by major aviation regulatory authorities including Transport Canada (“TC”) and the U.S. Federal Aviation Authority (“FAA”). Star owns the resulting certifications for installations on commercial and business aircraft (e.g.: A320, A340, A310, B737, Learjet 45.) as well as other certifications for previous applications to older aircraft. Star owns the worldwide exclusive license to this patented technology and is actively developing new applications for in-flight medical monitoring, environmental monitoring, and ground-based systems. The third generation (“G3”) computer combines, in one unit, several updated air-to-ground communications means. In particular, the G3 unit adds the ability to switch from satellite communications to GSM communications, providing maximum flexibility and cost-effectiveness to the users.

## **GENERAL DEVELOPMENT OF THE BUSINESS (Cont'd)**

The STAR-M.M.I.™ Division was created in April 2014. The Division repairs high performance flat panel displays for defence and commercial aviation industries and has been an important revenue generator within Star. STAR- M.M.I.™ serves major avionics integrators and system manufacturers worldwide.

## **OVERVIEW OF ACTIVITIES AND STAR PRODUCTS**

### **STAR-A.D.S. ®**

The STAR-ISMS® patented technology is the heart of the STAR-A.D.S. ® System. The System provides airlines/operators with a cost effective, end to end solution, allowing the automated capture and delivery of the results of real-time, in-flight analysis of an agreed set of parameters. This offers the capability of real-time monitoring of the aircrafts' performance, its status and location, and provides instant and secure access to essential aircraft information from a PC based web connection. The STAR-A.D.S. ® System delivers high value, streamlined operational information with minimum impact to the airline's internal processes and procedures. It uses a Graphical User Interface ("GUI") providing the operator with fast, convenient visibility of information from any location, within minutes of the data being generated on an aircraft data bus, in flight, anywhere in the world.

### **STAR-T.T.T. ™ / STAR-V-trk™ / STAR-ISAMM™/ STAR-LSAMM™**

The Company has refined and expanded the manner in which the STAR-A.D.S. ® System is marketed and sold. The efforts of its Research and Development team to enhance the capabilities of the STAR-A.D.S. ® System, as well as the rest of the Star product line, has resulted in three additional differentiated products coming online:

- Recognizing the requirement for a smaller and reduced version of the full STAR-A.D.S. ® System, Star has introduced STAR-T.T.T.™ (TALK, TRACK, TEXT), which will be utilized by small aircraft and land vehicles. Our Chinese partner, Chengdu Spaceon Technology Ltd. ("Spaceon"), has initiated the development in China of the STAR-T.T.T.™ under STAR specifications. Star Navigation has designed the environment qualification tests for both the Chinese and the Canadian Authorities. STAR-T.T.T.™ has potential applications for land vehicle applications as well.
- Star has developed another product, known as STAR-V-trk™, which is a small, economical unit with several variants, starting with a worldwide tracker, and adding incremental options for monitoring various functionalities. The product has received strong interest as a multi-purpose tool from the small aircraft and helicopter community. Its specifications have been updated, taking into account the requirements and comments received.
- The development of the STAR-ISAMM™ system is almost complete

The STAR-ISAMM™ System will bring to Helicopter and fixed-wing aircraft EMS services an advanced, multi-purpose platform. A variant of the STAR-A.D.S. ® System, which is already certified in the commercial airline world, it collects, processes and channels patient information from the bio-medical monitors on-board to ground health professionals while the aircraft is in flight.

## **STAR-T.T.T.<sup>TM</sup> / STAR-V-trk<sup>TM</sup> / STAR-ISAMM<sup>TM</sup>/ STAR-LSAMM<sup>TM</sup> - (Cont'd)**

The capabilities of the system will greatly improve overall patient management and medical decision-making. The overall quality and efficiency of EMS services will be enhanced. The system has recently been show-cased to various interested parties in Canada. Final regulatory approvals are underway in both Canada and the U.S.A. and are targeted for June 2020. The STAR-ISAMM<sup>TM</sup> has already been subject to several proposals to interested parties in North America. One agreement has been signed with a Texas company and another is anticipated in early June.

The STAR-LSAMM<sup>TM</sup> is a variant of the STAR-ISAMM<sup>TM</sup> and addresses the specific requirements of ground ambulances. It has already been show-cased to some provincial operators in the US and in Canada. The proposal phase of the STAR-LSAMM<sup>TM</sup> has started.

## **STAR-M.M.I.<sup>TM</sup>**

The STAR-M.M.I.<sup>TM</sup> Division, repairs, performs qualification tests on, and supports on-board LCD flat screen displays. These high-performance LCD displays and control panels from STAR-M.M.I.<sup>TM</sup> are used in the cockpits of fixed wing aircraft and helicopters for both civilian and military applications.

STAR-M.M.I.<sup>TM</sup> has full capability, in-house, to manufacture and offer customer support. Its products have already been delivered to various major system avionics integrators worldwide, all of them appearing in the Fortune 500 listing.

## **OPERATIONAL MILESTONE UPDATES**

During the year ended June 30, 2020, the Company made the following progress towards achieving its strategic growth objectives:

- Star and its major STAR-M.M.I.<sup>TM</sup> customer in the USA, have implemented and are working under their long-term maintenance agreement for specific displays for the P3 maritime patrol aircraft. The agreement covers activities up to 2021. Another U.S. based customer for the same product has generated additional business. A proposal has been accepted by a Japanese prospect for the development of an LCD based variant of a legacy multi-function control panel for helicopter use.
- Spaceon has developed and will manufacture the STAR-T.T.T.<sup>TM</sup> under Star specifications. Spaceon, in the meantime, is working on its efforts to market the STAR-T.T.T.<sup>TM</sup>.
- STAR has a cooperation and distribution agreement with Zhonglian Tiantong Space Technology (ZLT) in Tianjin China, to distribute and support the STAR- V-trk<sup>TM</sup> equipment, which is a spin-off under a smaller form factor of the STAR- A.D.S.<sup>®</sup>. The STAR- V-trk<sup>TM</sup> will better meet the requirements of small aircraft and helicopter operators, with less on-board real estate requirements. STAR is proceeding with the development and tests of the STAR- V-trk<sup>TM</sup> in Canada and will sell the equipment to ZLT for their marketing efforts in China. ZLT has started demonstrating the STAR- V-trk<sup>TM</sup> in China. STAR will pursue the STAR- V-trk<sup>TM</sup> marketing and sales in the rest of the world.

## **OPERATIONAL MILESTONE UPDATES (Cont'd)**

- Star has purchased a controlling interest in SOLUTIONS ISONEO INC., a leading European engineering and development corporation, recently established in Canada. The Company and SOLUTIONS ISONEO INC. have been jointly conducting new R&D projects, specifically in the domains of Medevac applications of the STAR- A.D.S.® System. Star has renamed the company STAR-ISONEO INC. and expects to more efficiently utilize ISONEO's experience and expertise. New offices have been opened in the TECHNOPARC area of Montreal.
- A consortium led by Bombardier Aerospace has been provided with a modified STAR- A.D.S.® System for a Government of Canada funded Research project that will check and analyze high altitude radiation levels during flights. The System has been installed on-board a flight test aircraft and has been successfully performing its data collection and analysis since late 2017. The study is feeding a subsequent European and Canadian research program in the same field. Both companies are demonstrating the flexibility and the adaptability of a STAR- A.D.S.® platform to accommodate various kinds of data. The first period of the data collection campaign was completed on the Bombardier G7500 flight test aircraft #3. The system is now transferred to another flight test aircraft from Bombardier for another data collection period.
- The STAR- A.D.S. ® Gen 2 has passed all qualification tests for on-board use, and received certification from Transport Canada, and by the US Federal Aviation Administration ("FAA"). Subsequently, the dual certification has been validated by the Kingdom of Saudi Arabia and Gulf Civil Aviation Authorities ("GACA").
- Star is in final discussions to add two more aircraft (a Boeing 737 and Global Express Bus Jet) to their initial order of the Gulf VVIP.
- STAR- A.D.S. ® Gen 2 has been selected by ALMASRIA Universal Airlines to equip its fleet of 5 aircraft (Airbus A320 and Boeing B737) starting in 2020. First Installation preparation has commenced and has been completed on a first aircraft for the airline. Discussions on the 2<sup>nd</sup> installation have begun and no firm installation date has been set.
- Star MMI Division has received additional orders for maintenance services of LCD displays from a U.S. based maintenance provider for military equipment. These orders consist of troubleshooting, repair and tests of legacy equipment that was designed and produced by Luxell Technologies, before Luxell's assets were purchased by STAR in 2014. Further to being listed as a possible supplier of displays and electronic systems at HAL, Star is working on presentations of capabilities to the interested Indian parties in the near future.
- Star successfully attained AS 9100 Rev. "D" certification. The AS9100 Revision D Quality Management System includes updated requirements for Aviation, Space and Defense Organizations.

## OUTLOOK - STRATEGIC OBJECTIVES FOR FY2020 AND BEYOND

Star's management is working to achieve the following objectives over the next 12 months and beyond:

- Star will continue to execute the commercialization of the STAR-A.D.S.® System, products and services with a focus on:
  - Specific airlines and operators using the legacy A320, B737 and Learjet business jets to leverage on Star's existing STC's and first installation experience.
  - Finalizing the qualification and Transport Canada certification of the STAR V-trk™ for small platforms and for ground transport, to bring it into the market. There are three main geographical markets considered: Canada, China, and Europe.
  - Continuing to develop and exploit new applications of existing Star technology in the areas of land and marine transportation.
  - Developing its efforts in R&D with the provincial and federal authorities to quickly prepare evolutions and new applications of its lines of products in the aerospace field.
- Further developing the capability and marketability of its data services through further value-added services, either in-house or in a tight partnership, offering applications directed towards flight safety, direct analysis by the operator of their operational data, and other services that allow the operator to save time and resources in the collection, formatting and analysis of data.
- STAR is proposing a further R&D program to the Federal Government for fiscal years subsequent to 2020, with additional capabilities in augmented reality. The objective is to lighten the on-board paramedic workload and to enhance and facilitate the decision-making process of the doctors on the ground.
- Promoting its product lines at selected airshows and attending focused industry conferences in coordination with Star partners, to demonstrate Star's products and expand branding visibility.
- Implementation of the three-year R&D plan for the STAR-A.D.S.® System, STAR-T.T.T.™, Star V-trk™, and STAR-M.M.I.™ lines of products to structure and to support development efforts and to ensure increased product offerings.
- This plan will address:
  - Development of specific new application services for the STAR-A.D.S.® System to offer to customers.
  - Increase of STAR-M.M.I.™ capabilities for obsolescence replacement solutions to the market (defense and commercial). STAR-M.M.I.™ is proposing, for instance, to replace legacy CRT or TEFL based instruments in displays with LCD based specialized modules (less power requirement, less weight, increased lifetime, less obsolescence in the long run).

## **SELECTED FINANCIAL INFORMATION AND MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **General Financial Information at June 30, 2020**

The Company will continue to require debt and/or equity financing until it is able to generate sustainable revenues from operations on a consistent basis. The Company is looking at all available financing options. There can be no assurance that the Company will be successful in obtaining further financing.

The Company's STAR-M.M.I.™ Division ("Man Machine Interface") has generated the majority of revenues for the Company since April 2014. However, the Company has experienced large fluctuations in revenues from year to year since. Contract complications occurring between Star's major customer and the U.S. government were and still remain a problem.

Re-negotiation of the contract resulted in the execution of a multiple year repair and maintenance agreement with Star's customer to cover activities up to the year 2021. The Company is looking to a return to regular sales levels with this customer in FY2021 but there can be no guarantee of this.

Accounts receivable are collected on a regular basis. The balance of accounts receivables outstanding at June 30, 2020 is \$22,969 (June 30, 2019 - \$279,893).

Total assets are on par with 2019 due to the change in accounts receivables and the adoption of IFRS 16 by the Company.

Capital assets have changed due to normal depreciation and amortization charges taken in 2020.

Accounts payable and accrued liabilities have increased as a result of increased accruals for legal fees, salaries and source deductions payable. Payroll remittances for FY2020 are currently behind but the Company had been paying down its prior years' payroll arrears when possible.

Due to Related party balances have increased since June 30, 2020. The Company's only material debt continues to be the amount due to the former CEO and Chairman of the Company which amounted to \$2,218,428 (June 30, 2019 - \$1,884,134). During the year, certain shareholders of the Company advanced funds totaling \$1,156,760 to the Company for general working capital purposes.

## SUMMARY OF QUARTERLY RESULTS

The following table sets out selected financial information, presented in Canadian dollars and prepared in accordance with IFRS. The information contained herein is drawn from interim financial statements of the Company for each of the aforementioned eight quarters.

(Expressed in \$)

	<b>2020</b>	<b>2020</b>	<b>2019</b>	<b>2019</b>
Period Ending	June 30	March 31	December 31	September 30
Revenue	18,171	34,772	5,172	51,672
Working Capital/(Deficit)	(5,130,404)	(4,738,586)	(3,853,491)	(3,155,103)
Expenses	416,589	947,291	735,329	608,922
Net Loss from Operations	(398,418)	(912,519)	(730,157)	(557,250)
Net Loss (per Share)	(0.001)	(0.002)	(0.001)	(0.001)

	<b>2019</b>	<b>2019</b>	<b>2018</b>	<b>2018</b>
Period Ending	June 30	March 31	December 31	September 30
Revenue	140,414	21,061	223,241	77,796
Working Capital/(Deficit)	(2,751,222)	(1,703,879)	(1,007,522)	(1,302,007)
Expenses	1,383,280	792,681	717,110	773,328
Net Loss	(1,242,866)	(771,620)	(493,869)	(695,532)
Net Loss (per Share)	(0.003)	(0.001)	(0.001)	(0.001)

## RESULTS OF OPERATIONS

### Comparison of the years ended June 30, 2020 and June 30, 2019

The Company sustained a loss of \$2,598,344 for the year ended June 30, 2020 vs. a loss of \$3,203,887 for the same period ended June 30, 2019. The decrease in loss is due to decreases in various expense categories and the results of the Covid-19 pandemic.

#### Revenues:

	<b>2020</b>	<b>2019</b>	<b>Variance</b>
<b>Total Revenues</b>	<b>109,787</b>	462,512	(352,725)
<b>Star ISMS</b>	<b>25,781</b>	237,366	(211,585)
<b>Star MMI</b>	<b>42,628</b>	225,146	(182,518)
<b>Other</b>	<b>41,378</b>	-	<b>41,378</b>

Revenues for the year ended June 30, 2020 have decreased by \$352,725 over the same period of 2019.

The Company had no significant orders for its Star ISMS in 2020 as shown by the drop over 2019 of \$211,585.

STAR-M.M.I.<sup>TM</sup> sales have decreased over 2019 at this point in time by \$182,518. However, although the program has generated consistent revenues since the first sale in September of 2014 it has not yielded the results the Company had hoped for and has struggled in recent years due to stoppages in programs that are beyond the control of the Company.

**Comparison of the years ended June 30, 2020 and June 30, 2019 (Cont'd)**

**Cost of Inventory Consumed:**

	<b>2020</b>	<b>2019</b>	<b>Variance</b>
<b>Total Cost of Inventory Consumed</b>	<b>55,443</b>	96,221	(40,778)
Star ISMS	49,301	7,000	42,301
Star MMI	6,142	89,221	(83,079)

Cost of inventory consumed for the year ended June 30, 2020 decreased over 2019 due to the decrease in MMI and ADS sales in 2020.

**General and Administrative:**

	<b>2020</b>	<b>2019</b>	<b>Variance</b>
<b>Total G&amp;A expenses</b>	<b>1,538,683</b>	1,410,480	128,203
Accounting fees	87,495	83,845	3,649
Depreciation of ROU asset	102,631	51,315	51,316
Bad debt expense	68,080	46,602	21,478
Bank charges & interest	7,258	5,745	1,513
Board and Committee fees	127,000	90,000	37,000
Filing fees	68,530	55,406	13,124
Insurance	82,419	86,921	(4,502)
Office and general	52,667	159,278	(106,611)
Professional fees	475,143	99,920	375,223
Rent	34,044	48,766	(14,723)
Wages	433,417	682,682	(249,265)

Board and Committee fees are up this year as the Company added 5 new Directors in December of 2019 at a Special Annual General meeting.

Filing fees are up due to costs associated with the December 11, 2019 Special General Meeting held.

Insurance costs remain relatively the same on a year to date basis as the Company has switched providers for its employee benefits program. Group insurance costs are the largest component of insurance. The Company has been able to negotiate lower rates for its commercial and liability insurance.

Rent expense decreased as the Company moved to a new location in November of 2018 and received a free rent incentive for both November and December 2018. The offset to this decrease is an increase in the amortization on the right of use asset that was setup and is amortized over the life of the lease which is 10 years.

Professional fees are up due to legal costs associated with the legal challenges brought forth to object to the change of the Board of Directors on December 11, 2019 and the costs

### **Comparison of the years ended June 30, 2020 and June 30, 2019 (Cont'd)**

of dealing with the Notice of Intention to Make Proposal ("NOI") that occurred on December 11, 2019.

Wage expense decreased substantially with the removal of the former CEO on December 11, 2019.

Bad debt expense was up in 2020 due to the Company recognizing a provision against receivables.

#### **Marketing and Promotion**

	<b>2020</b>	<b>2019</b>	<b>Variance</b>
<b>Total M&amp;P expenses</b>	<b>148,589</b>	486,871	(338,282)
<b>Consultant costs</b>	<b>145,500</b>	382,216	(236,716)
<b>Investor relations</b>	<b>-</b>	71,880	(71,880)
<b>Travel costs</b>	<b>3,089</b>	32,775	(29,686)

Marketing and promotion costs have decreased substantially over the same period of 2019 mainly due to the Covid-19 world-wide pandemic.

Travel costs are down in 2020 due to Covid-19 restrictions.

Consultant costs have decreased as the Company dealt with the effects of Covid-19 and had to scale back its operations.

Investor relations costs have dropped over 2019 as June 30, 2019 contained a one-time charge that was not incurred in 2020.

#### **Research and Development:**

	<b>2020</b>	<b>2019</b>	<b>Variance</b>
<b>Total R&amp;D expenses</b>	<b>802,270</b>	952,196	(149,926)
<b>Amortization expense</b>	<b>23,753</b>	27,959	(4,206)
<b>R&amp;D costs</b>	<b>99,334</b>	152,765	(53,431)
<b>Travel costs</b>	<b>-</b>	27,630	(27,630)
<b>Wages</b>	<b>679,183</b>	743,842	(64,659)

Amortization expense has decreased in 2020 over 2019 as the Company's asset base has continued to decrease.

R&D costs have decreased in 2020 as the company has just started to spend money on its LSAMM and ISAMM projects when Covid-19 hit.

Wages have decreased in this year as the Company laid off its staff in April 2020 due to the Covid-19 pandemic.

### **FOREIGN EXCHANGE GAIN/LOSS:**

Monetary assets and liabilities denominated in foreign currencies are translated at the year-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.

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

	<b>June 30, 2020</b>	<b>June 30, 2019</b>
Cash	\$ 57	\$ 7,145
Accounts receivable	8,041	279,893
Accounts payable	(70,169)	(50,054)
	<b>\$ (62,071)</b>	<b>\$ 236,984</b>

Based on the Company's net exposure to US dollar denominated instruments at June 30, 2020 and June 30, 2019, a sensitivity analysis has not been presented as it would be immaterial.

### **LIQUIDITY AND CAPITAL RESOURCES**

The Company had cash of \$29,880 at June 30, 2020 compared to a cash indebtedness balance of \$91,046 at June 30, 2019 resulting in an increase of \$120,926. The Company has a working capital deficiency of \$5,130,404 at June 30, 2020 compared to a working capital deficiency of \$2,747,616 at June 30, 2019.

The Company will continue to need more funding either through private placements, exercise of warrants and options or other financing options to sustain operations until revenues from the STAR-M.M.I.<sup>TM</sup>, STAR-A.D.S. ®, programs generate adequate cash flows.

The Company continues to monitor its monthly spending as it plans for the current fiscal year.

For the year ending June 30, 2020, cash flow used in operating activities was \$1,588,551 as compared to \$3,002,226 at June 30, 2019. The decrease was due in large part to large changes in non-cash working capital accounts, most notably accounts payables and accrued liabilities. The Company continuously looks for further ways to reduce costs until revenues have increased adequately to reduce the need to borrow/raise funds.

Management is currently evaluating various financing options for the Company's short and long-term obligations. The financing alternatives can include debt and/or equity financings, asset sales and rights offerings to existing shareholders. There is no assurance that future funding will be available on favorable terms to the Company, or at all.

## **LIQUIDITY AND CAPITAL RESOURCES (Cont'd)**

The Company has depended in the past on the support of its shareholders for financing. This will continue to be the case.

The Company is subject to the risks generally associated with high-technology companies, which include fluctuations in operating expenses and revenues.

## **OFF BALANCE SHEET ARRANGEMENTS**

As at June 30, 2020 the Company had no off-balance sheet arrangements such as guaranteed contracts, contingent interests in assets transferred to an entity, derivative instrument obligations or any instruments that could trigger financing, market or credit risk to the Company.

## **OUTSTANDING SHARE DATA**

Series I First Preferred Shares	615,000
Common Shares	519,340,432
Share Purchase Warrants	85,580,000 (exercise price of \$0.07)
Stock Options	6,470,000 (exercise prices ranging from \$0.05 to \$0.15 with expiry dates up to January 14, 2023 and various graded vesting provisions).

## **RECENT ACCOUNTING PRONOUNCEMENTS ISSUED AND NOT YET APPLIED**

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 2020–2020 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.

## **RECENT ACCOUNTING PRONOUNCEMENTS ISSUED AND NOT YET APPLIED (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.

## **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;

## **ADOPTION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (Cont’d)**

- 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.

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 2018 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, 2020. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities was 10%. The lease commitments expire in December 2026.

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

## **ADOPTION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (Cont’d)**

### **Adjustments recognized on adoption of IFRS 16 (Cont’d)**

In applying IFRS 16 for the first time, the Company has used the following practical expeditives 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

## **ACCOUNTING ESTIMATES AND JUDGMENTS**

The preparation of the consolidated financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and underlying assumptions are reviewed on an ongoing basis. Actual outcomes may differ from these estimates under different assumptions and conditions.

The most significant estimates relate to the determination of the Useful lives and impairment of property and equipment and intangible assets; net realizable value of inventory; allowance for doubtful accounts; the calculation of stock-based compensation; and the valuation of options and warrants granted.

The most significant area of judgments are going concern; impairment of goodwill and deferred tax assets.

## **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 directors and officers, and monthly compensation accrued for its directors and committee chairpersons that has accumulated over the past several years.

The Company’s Board of Directors are compensated at the rate of \$2,000 per month for performing duties such as providing guidance to management in areas such as corporate governance, reviewing strategic plans, budgeting, material contracts or joint ventures and any other material information deemed necessary.

## **RELATED PARTY TRANSACTIONS (Cont'd)**

One half of such amounts are accrued. Committee Chairpersons are selected from amongst the Directors of the Company to lead the Audit, Compensation/Corporate Governance and Strategic Planning/Human Resources committees. Chairpersons are remunerated at the following rates; Audit Chairman - \$1,000 per month, Compensation/Corporate Governance Chairman - \$1,000 per month, Strategic Planning / Human Resources Chairman - \$1,000 per month. All of the above amounts are recognized in the consolidated financial statements of the Company as accrued.

The terms for payment of the amounts accrued to the various Board and Committee members are restricted. These amounts can only be settled when individuals wish to exercise options that have been granted to them by the Company or to participate in a private placement being offered by the Company. Such amounts are non-interest bearing and unsecured.

The Company has an exclusive license agreement in place with a company owned and controlled by its CEO and Chairman of the Board regarding the use of patents related to the STAR-ISMS® technology. There were no license payments made or required to be made for the periods ended June 30, 2020 and June 30, 2019.

The amount due to related parties at June 30, 2020 is \$3,834,522 (June 30, 2019 - \$2,167,147) and is comprised of the following:

	<b>June 30, 2020</b>	June 30, 2019
Due to Directors	\$ 214,740	\$ 110,000
Due to Committee Chairpersons	51,000	34,000
Due to former Chief Executive Officer – Viraf Kapadia <sup>(i)</sup>	2,218,428	1,884,134
Due to former Chief Operating Officer – Jean-Louis Larmor	193,595	139,013
Due to Shareholders <sup>(ii)</sup>	1,156,760	-
	<b>\$ 3,834,522</b>	<b>\$ 2,167,147</b>

(i) \$2,218,428 (June 30, 2019 - \$1,884,134) of the balance bears interest at 5% per annum; Interest accrued on the loan payable to the CEO for the year ended June 30, 2020 was \$54,998 (June 30, 2019 – \$101,141).

(ii) During the year, various shareholders of the Company, including the Chairman of the Board, advanced funds totaling \$1,156,760 to the Company for general 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 Subsequent Events).

The Company also owes \$5,700 (June 30, 2019 - \$8,565) in credit card debt that is guaranteed by the CEO and Chairman of the Board in accounts payables and accrued liabilities.

## **RELATED PARTY TRANSACTIONS (Cont'd)**

Key management personnel cost included in the consolidated statement of comprehensive loss as of June 30, 2020 is \$519,001 (June 30, 2019 - \$738,471). These amounts which are included in general and administrative expense represent fees paid and accrued to directors and officers of the Company:

	<b>June 30, 2020</b>	June 30, 2019
Former Chief Executive Officer	\$ 194,001	\$ 248,250
Chief Operating Officer	139,500	227,666
Chief Financial Officer	87,495	71,000
Board of Director fees	110,000	68,000
Committee Chairperson fees	17,000	22,000
Stock-based compensation	-	101,555
	\$ 519,001	\$ 738,471

## **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. 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.

## **CONTINGENCY**

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with customers, vendors and former employees. Management believes that adequate provisions have been recorded in the accounts where required.

## **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) Notice of Intention to Make Proposal (“NOI”)**

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”).

## **REORGANIZATION AND NOTICE OF INTENTION TO MAKE PROPOSAL EVENTS (Cont'd)**

### **(b) Notice of Intention to Make Proposal ("NOI")**

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. 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.

## **REORGANIZATION AND NOTICE OF INTENTION TO MAKE PROPOSAL EVENTS (Cont'd)**

### **(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. 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-Isoneo 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.

## SUBSEQUENT EVENTS

### (a) Partial Revocation FFCTO

On May 21, 2020, the Ontario Securities Commission (the “OSC”) partially revoked the cease trade order (the “CTO”) issued against the Company on November 1, 2019 for failing to file certain outstanding continuous disclosure documents in a timely manner.

The Company applied for the partial revocation order (“Partial Revocation Order”) in order to complete an exempt non-brokered private placement (the “Financing”). On September 1, 2020, the Company completed its non-brokered private placement (the “Private Placement”) of 41,634,000 units (the “Private Placement Units”) at a purchase price of \$0.025 per Unit for gross proceeds of \$1,040,850. Each Private Placement Unit will consist of 1 common share and 1 warrant to purchase 1 common share, exercisable at a price of \$0.05 for 2 years from the date of issuance. Finders fees in the amount of 10% of the gross proceeds were paid. All securities are subject to a statutory four month hold period.

On September 1, 2020 the Company converted \$1,156,760 of debt (the “Debt Conversion”) held by certain shareholders into 57,838,000 units (the “Debt Conversion Units”). Each Debt Conversion Unit was issued at a deemed price of \$0.02 per Debt Conversion Unit and consist of 1 common share and 1 warrant to purchase 1 common share, exercisable at a price of \$0.05 for 2 years months from the date of issuance. All securities are subject to a statutory four month hold period.

The proceeds of the Private Placement and Debt Conversion will be used to pay outstanding fees owed to the Company’s auditors as well as for other general working capital purposes. Completion of the Private Placement will allow the Company to prepare and file all outstanding continuous disclosure documents with the applicable regulatory authorities. Once those filings have been completed, the Company will apply for a full revocation of the CTO.

Prior to completion of the Financing, each potential investor received a copy of the CTO and the Partial Revocation Order, and was required to provide an acknowledgement to the Company that all of the Company’s securities, including the shares and warrants issued in connection with the Financing, will remain subject to the CTO until such order is fully revoked, and that the granting of the Partial Revocation Order by the OSC does not guarantee the issuance of a full revocation order in the future. In addition, in accordance with applicable securities legislation, all common shares and warrants issued pursuant to the Financing will be subject to a hold period of four months and a day from the closing date of the Financing.

The Partial Revocation Order terminated on the completion of the Financing on September 1, 2020.

## **SUBSEQUENT EVENTS (Cont'd)**

### (b) 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-Isoneo

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-Isoneo 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-Isoneo 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. 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-Isoneo 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-Isoneo 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

## **SUBSEQUENT EVENTS (Cont'd)**

### (b) Lawsuits

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.

### (c) 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 be extended and 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) 3,404,000 share purchase warrants issued pursuant to a private placement announced on September 4, 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.

## **RISK FACTORS AND RISK MANAGEMENT**

Although management is working diligently towards generating revenue, improving cost containment and achieving profitable operations, the Company is subject to the risks generally associated with high-technology companies. These risks include fluctuations in operating expenses, lengthy sales cycles, the pace of technological change, human resource costs of necessary additional research and development, competition, regulatory approvals and permitting, and the need to secure further equity or debt financing and/or funding.

The Company is also subject to the risk of competition in a fast-moving high technology industry. Protection of the Company's intellectual property carries the risk of expensive litigation. Retention of highly skilled key personnel, fluctuation of input costs, travel costs and general economic conditions may impact the Company's performance.

The Company's revenues depend mainly upon three factors: hardware sales, ongoing monthly monitoring charges and airtime and STAR-M.M.I.<sup>TM</sup> repair activities. Revenues from hardware are normally a one-time event and are dependent upon sales. Therefore, these revenues will vary from period to period. Revenue from a customer from ongoing

## RISK FACTORS AND RISK MANAGEMENT (Cont'd)

monthly monitoring is relatively stable, but can vary depending upon usage and, in rare cases, upon the financial health of the customer.

Revenue from STAR-M.M.I.™ Division activities has been relatively stable on an annualized basis but can and does vary throughout the year, as has been noted earlier in this MD&A.

The Company is working diligently to increase the level of sales across its product suite, carefully monitors the payment records of its customers, and sets its pricing models to reflect risk and return realities.

Operating expenses are generally stable but will vary depending on required staffing levels, equipment update and replacement, sales activity and required R&D activities. These expense items are pre-revenue in nature. As the Company now offers a fully developed STAR-A.D.S.® System to the commercial aviation world, the demands upon its R&D department are increasing, resulting in the need to hire additional staff in this area. STAR-M.M.I.™ R&D expenses are relatively low at this point.

The Company's target clients for the flagship STAR-A.D.S.® System, and its variant applications, are mainly commercial airlines, helicopters and EMS operators. As is the case with high technology sales to any large commercial operation operating on slim margins in a competitive environment, the sales cycle is generally a lengthy one, involving multiple varied sales presentations to several different departments and stakeholders, including engineering, finance, operations and the executive. The target clients for STAR-ISAMM™, STAR-LSAMM™, STAR-T.T.T.™, STAR-V-trk™ and STAR-M.M.I.™ represent a much larger group which should require a shorter sales and installation cycle.

Also, as the Company is determined to protect its Intellectual Property, cases of potential infringement of patent are not predictable and the legal costs involved can be substantial.

A large percentage of the Company's sales initiatives prior to STAR-A.D.S.® involved non-North American customers, with the attendant travel and time requirements.

Amongst other initiatives, the Company is continuing to review and reorganize its sales process. Where possible, it makes greater use of video conferencing, although face to face meetings are required with respect to already well defined and prepared prospects and opportunities.

It is also refocusing its efforts to provide an enhanced emphasis on potential North American customers, while maintaining its existing initiatives overseas.

In order to maintain and enhance its current competitive position, the research and development department of the Company is continually working to upgrade the existing functionality, size, weight and price point of the STAR-ISMS® G3 hardware, the capabilities of the STAR-A.D.S.® System as a whole and the ease of use and functionality of information available through the date management center. Development of the next generation G3 system will be completed by December 2020.

## **RISK FACTORS AND RISK MANAGEMENT (Cont'd)**

Although the Company's exclusive world-wide license to the patented technology underlying the STAR-ISMS® unit provides a large measure of security, advances in technology are possible.

Regulatory matters can delay the sales process to varying degrees. The Company relies upon entities such as Transport Canada ("TC") to issue approvals such as Supplemental Type certificates ("STC's"), required whenever the Company is installing equipment aboard an aircraft.

Until revenues exceed expenses, the Company raises the necessary capital through private placements and other financing tools. There can be no assurance that management will be successful in raising the necessary capital required to fund ongoing activities.

As noted herein, there are a number of risks inherent in the business of the Company. As a result of those risks, and its present stage of development, an investment in the Company should be considered highly speculative.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES**

In accordance with National Instrument 52-109, Certification of Disclosure in Issuer's Annual and Interim Filings ("NI 52-109"), the CEO and CFO file a Venture Issuer Basic Certificate with respect to the financial information contained in the financial statements and accompanying Management's Discussion and Analysis. The Venture Issuer Basic Certification includes a "Note to Reader" stating that the CEO and CFO do not make any representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR"), as defined in NI 52-109.

As part of our corporate governance practices, ICFR and DC&P have been designed. There has been no formal evaluation of the operation of these controls. The Company has designed its ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance IFRS.

Management works to mitigate the risk of a material misstatement in financial reporting; however, a control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

The Company's DC&P have been designed to ensure that information required to be disclosed by Star is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure.

It should be noted that while the Company's CEO and CFO believe that the Company's DC&P provide a reasonable level of assurance that they are effective, they do not expect that the DC&P or ICFR will prevent all errors or fraud. There have been no material changes to the internal controls of the Company for the year ended June 30, 2020.