BLACKSTAR ENTERPRISE GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 1 – NATURE OF OPERATIONS AND BASIS OF PRESENTATION

BlackStar Enterprise Group, Inc. (the Company" or "BlackStar") was incorporated in the State of Delaware on December 18, 2007 as NPI08, Inc. ("NPI08"). In January 2010, NPI08 acquired an ownership interest in Black Star Energy Group, Inc., a Colorado Corporation. BlackStar Energy then merged into NPI08, with NPI08 being the surviving entity. Concurrently, NPI08 changed its name to BlackStar Energy Group, Inc. On January 25, 2016, International Hedge Group, Inc. signed an agreement to acquire a 95% interest in the Company. The name was changed to BlackStar Enterprise Group, Inc. in August of 2016.

The Company is a Delaware corporation organized for the purpose of engaging in any lawful business. The Company intends to act as a merchant bank as at the date of these financial statements. It currently trades on the Pink Sheets under the symbol "BEGI".

The Company's fiscal year end is December 31st. The Company's financial statements are presented on the accrual basis of accounting.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

The Company considers all cash on hand, cash accounts not subject to withdrawal restrictions or penalties and all highly liquid investments with an original maturity of three months or less as cash equivalents.

Revenue recognition

The Company has realized minimal revenues from operations. The Company recognizes revenues when the sale and/or distribution of products is complete, risk of loss and title to the products have transferred to the customer, there is persuasive evidence of an agreement, acceptance has been approved by the customer, the fee is fixed or determinable based on the completion of stated terms and conditions, and collection of any related receivable is probable. Net sales will be comprised of gross revenues less expected returns, trade discounts, and customer allowances that will include costs associated with off-invoice markdowns and other price reductions, as well as trade promotions and coupons. The incentive costs will be recognized at the later of the date on which the Company recognized the related revenue or the date on which the Company offers the incentive.

Basic and Diluted Loss per Share

The Company computes loss per share in accordance with "ASC-260," "Earnings per Share" which requires presentation of both basic and diluted earnings per share on the face of the statement of operations. Basic loss per share is computed by dividing net loss available to common shareholders by the weighted average number of outstanding common share during the period. Diluted loss per share gives effect to all dilutive potential common shares outstanding during the period. Diluted loss per share excludes all potential common shares if their effect is anti-dilutive.

Income Taxes

The Company accounts for income taxes pursuant to ASC 740. Under ASC 740 deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases.

The Company maintains a valuation allowance with respect to deferred tax asset. Blackstar Enterprise Group establishes a valuation allowance based upon the potential likelihood of realizing the deferred tax asset and taking into consideration the Company's financial position and results of operations for the current period. Future realization of the deferred tax benefit depends on the existence of sufficient taxable income within the carry-forward period under Federal tax laws.

Changes in circumstances, such as the Company generating taxable income, could cause a change in judgment about the reliability of the related deferred tax asset. Any change in the valuation allowance will be included in income in the year of the change estimate.

Carrying Value, Recoverability and Impairment of Long-Lived Assets

The Company has adopted paragraph 360-10-35-17 of FASB Accounting Standards Codification for its long-lived assets. The Company's long –lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable.

The company assesses the recoverability of its long-lived assets by comparing the projected undiscounted net cash flows associated with the related long-lived asset or group of assets over their remaining estimated useful lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets. Fair value is generally determined using the assets expected future discounted cash flows or market value, if readily determinable. If long-lived assets are determined to be recoverable, but the newly determined remaining estimated useful lives are shorter than originally estimated, the net book values of the long-lived assets are depreciated over the newly determined remaining estimated useful lives.

The Company considers the following to be some examples of important indicators that may trigger an impairment review; (i) significant under-performance or losses of assets relative to expected historical or projected future operating results; (ii) significant changes in the manner or use of assets or in the Company's overall strategy with respect to the manner of use of the acquired assets or changes in the Company's overall business strategy; (iii) significant negative industry or economic trends; (iv) increased competitive pressures; (v) a significant decline in the Company's stock price for a sustained period of time; and (vi) regulatory changes. The Company evaluates acquired assets for potential impairment indicators at least annually and more frequently upon the occurrence of such events.

The impairment charges, if any, are included in operating expenses in the accompanying statements of operations.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management bases its estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

The Company's significant estimates include income taxes provision and valuation allowance of deferred tax assets; the fair value of financial instruments; the carrying value and recoverability of long-lived assets, and the assumption that the Company will continue as a going concern. Those significant accounting estimates or assumptions bear the risk of change due to the fact that there are uncertainties attached to those estimates or assumptions, and certain estimates or assumptions are difficult to measure or value.

Management regularly reviews its estimates utilizing currently available information, changes in facts and circumstances, historical experience and reasonable assumptions. After such reviews, and if deemed appropriate, those estimates are adjusted accordingly. Actual results could differ from those estimates.

Fair value of Financial Instruments

The estimated fair values of financial instruments were determined by management using available market information and appropriate valuation methodologies. The carrying amounts of financial instruments including cash approximate their fair value because of their short maturities.

Long Lived Assets

In accordance with ASC 350 the Company regularly reviews the carrying value of intangible and other long lived assets for the existence of facts or circumstances both internally and externally that suggest impairment. If impairment testing indicates a lack of recoverability, an impairment loss is recognized by the Company if the carrying amount of a long lived asset exceeds its fair value.

Stock-based Compensation

The Company accounts for stock-based compensation issued to employees based on FASB accounting standard for Share Based Payment. It requires an entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award – the requisite service period (usually the vesting period). It requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. The scope of the FASB accounting standard includes a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans.

Recent pronouncements

Management has evaluated accounting standards and interpretations issued but not yet effective as of March 31, 2016, and does not expect such pronouncements to have a material impact on the Company's financial position, operations, or cash flows.

NOTE 3 – CASH IN TRUST ACCOUNT

Due to the Company's inability to open a bank account in its own name, International Hedge Group opened a trust account on behalf of the Company and paid various bills both current and previously outstanding for the Company. At such time as the Company is able to open accounts in its own name these funds will be transferred to the Company accounts.

NOTE 4 – PREPAID EXPENSES

In the course of paying vendors there were overpayments to transfer agent in the amount of $217 and the accounting service in the amount of $613 that are being carried on the books of the Company as "Prepaid Expenses". These amounts will be cleared in the subsequent quarter's activity.

NOTE 5 – STOCK SUBSCRIPTION RECEIVABLE

When the Company signed the Stock Purchase Agreement, (see Note 13) it included a payment of $200,000 as a condition of the agreement. As at September 30, 2016 International Hedge Group had paid a total of $100,000 towards this obligation. This receivable reflects the balance to be received by the Company from International Hedge Group and is shown on these financial statements as "Stock Subscription Receivable."

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

During the quarter ended September 30, 2016 the Company purchased certain office equipment for a total of $1,659. This equipment is being depreciated over a three year life and the Company has recorded a depreciation expense of $115 for the current quarter.

NOTE 7 – ACCRUED INTEREST PAYABLE

The Company has been accruing interest on a note of $200,000 dated July 11, 2011 and an advance of $50,000 dated September 23, 2011. Each has been accrued at a rate of 6% simple interest. For further detail the reader is advised to refer to the note "**NOTES PAYABLE".**

NOTE 8 – STOCKHOLDER'S DEFICIT

The total number of common shares authorized that may be issued by the Company is 200,000,000 shares with a par value of $0.001 per share. The Company is authorized to issue 10,000,000 shares of preferred stock with a par value of $0.001 per share.

On August 25, 2016 the Company issued 1,000,000 shares of its preferred series A stock to IHG in fulfillment of the purchase agreement. As at September 30, 2016 there are 1,000,000 preferred series A shares issued and outstanding. These shares are convertible at a ratio of 100 shares of the common stock of the Company for each share of preferred stock of the Company.

As at September 30, 2016 the total number of common shares outstanding was 55,825,000. The Company has an ongoing program of private placements to raise funds to support the operations. During the period ended March 31, 2016 the Company entered into a purchase agreement with International Hedge Group, Inc. ("IHG") whereby certain existing stockholders would surrender their stock and IHG would acquire a 95% working interest in the Company. As at the date of these financial statements only one of the stockholders had completed the transaction. IHG's commitment was to provide at least $200,000 in working capital within 6 months of the date of the agreement. As at the date of these financial statements IHG has provided $100,000 of the commitment. On June 30, 2016 the Company signed an extension agreement allowing for an extension to October 30, 2016 for fulfillment of this obligation. During the month of October 2016 International Hedge Group fulfilled the commitment by paying the remaining $100,000.

During the quarter ended September 30, 2016 the Company issued 1,322,579 shares of its common stock to satisfy certain accounts payable and notes payable plus accrued interest. The stock was valued at $0.04 per share which valued the total debt relief at $52,,903. The debts discharged in these transactions were valued at $335,072. These transactions were with unrelated parties giving the Company a net gain of $282,569 as gain on debt relief.

.**NOTE 9 – WARRANTS**

At the time of the issuance of stocks referenced in Note 8 the Company issued 34,000,000 warrants to purchase the Company's common stock at an exercise price of $0.05 These warrants have an exercise price of $0.05 per share and an expiration date that is three years from the date of issuance. The warrants were issued to the existing shareholders of International Hedge Group. There are 15 stockholders in IHG and 6 of these represent owners of greater than 5% of IHG stock. These 6 stockholders received 57.35% of the warrants issued. 800,000 of these warrants were issued to satisfy outstanding accounts payable. The payable amounted to $20,253 and the warrants were valued at $32,000 giving rise to a loss of $11,747 on the settlement of debt.

Using the Black-Scholes valuation model a value of $1,328,000 is assigned to these warrants. The parameters used in the Black-Scholes model were as follows: stock price $0.04; strike price $0.05; volatility 172%; risk free rate 1.75% and time to expiration of 3 years. This expense is recorded on the books of the Company as "Warrant expense" with an offsetting entry in the Stockholder's Deficit section as "Additional paid in capital – Warrants."

As at September 30, 2016 the Company has not received any notifications with respect to any exercise of any outstanding warrants

	Shares Under Warrant	Exercise Price	Remaining Life
Balance at December 31, 2015	0	0	0
Granted	34,000,000	$ 0.05	3.00
Exercised	0	0	0

Expired	0		0	0
Balance at September 30, 2016	34,000,000	$	0.05	3.00

A summary of warrant activity for the periods indicated is as follows:

NOTE 10 – INCOME TAXES

A reconciliation of the provision for income taxes at the United States federal statutory rate of 34% and a Colorado state rate of 5% compared to the Company's income tax expense as reported is as follows:

		September 30, 2016		December 31, 2015		December 31, 2014
Net loss before income taxes	$	(1,115,261)	$	(15,000)	$	(15,000)
Adjustments to net loss						
Warrant expense		1,328,000		-		-
Gain on exchange of debt for stock		(270,822)		-		-
Net taxable income (loss)		(58,083)		(15,000)		(15,000)
Income tax rate		39%		39%		39%
Income tax recovery		22,650		5,850		5,850
Valuation allowance change		(22,650)		(5,850)		(5,850)
Provision for income taxes	$	-	$	-	$	-

The significant components of deferred income tax assets at September 30, 2016, December 31, 2015 and 2014 are as follows:

		September 30, 2016		December 31, 2015		December 31, 2014
Net operating loss carry-forward	$	58,083	$	0	$	0
Valuation allowance		(58,083)		0		0
Net deferred income tax asset	$	0	$	0	$	0

As of September 30, 2016, the Company has no unrecognized income tax benefits. Based on management's understanding of IRC Sec 383 the substantial change in ownership and change in business activities precludes any carryforward of the accumulated net operating losses. The Company's policy for classifying interest and penalties associated with unrecognized income tax benefits is to include such items as tax expense. No interest or penalties have been recorded during the years ended December 31, 2015 and 2014, and no interest or penalties have been accrued as of September 30, 2016. As of December 31, 2015 and 2014 the Company did not have any amounts recorded pertaining to uncertain tax positions.

As at September 30, 2016 the current management of the Company has been unable to ascertain when the last corporation income tax returns were filed. Management will use its best efforts to bring current all the necessary filings. The Company is currently not under examination by the Internal Revenue Service or any other taxing authorities. The Company has not recorded any liability for an uncertain tax position related to the lack of return filings since the Company records show a continuing pattern of losses for the periods in question. Since penalties are commonly assessed based on tax amounts owed management has deemed in unnecessary to record any liability.

NOTE 11 – NOTES PAYABLE

On September 23, 2011 the Company received $50,000 in the form of cash as a temporary loan from a director of the Company. The Company has elected to accrue interest at the rate of 6% per annum non-compounding. The Company has not received any notice of default and has continued to accrue interest on its books at the rate of 6% each year. During the month of August 2016 the Company agreed to issue 200,000 shares of its common stock in satisfaction for this indebtedness along with all accrued interest, and authorized the shares conditioned upon receipt of a release.

On July 11, 2011 the Company received $200,000 in the form of cash in exchange for a promissory note bearing interest at the rate of 6% per annum. The; note does not specify that the interest is compounding therefore the Company is accruing the expense at a simple interest rate of 6%. The Company has not received any notice of default and has continued to accrue interest on its books at the rate of 6% each year. During the month of August 2016 the Company issued 700,000 shares of its common stock in exchange for this indebtedness along with all accrued interest.

NOTE 12 – GENERAL AND ADMINISTRATIVE EXPENSES

Components of General and Administrative Expenses

	Nine Months Ended September 30,	Year Ended December 31,	
	2016	2015	2014
Bank service charges	84	-	-
Contract services	3,175		
Meals & entertainment	295	2,275	1,515
Office expense	4,812	-	-
Filing fees	953	525	610
	$ 9,319	$ 2,800	$ 2,125

NOTE 13 – STOCK PURCHASE AGREEMENT

On January 25, 2016 the Company received and agreed to a purchase of its common stock from International Hedge Group, Inc.(IHG) to purchase a 95% controlling interest in the Company. At the closing IHG was to provide the Company with a promissory note in the amount of $200,000 payable over a 180 day period in increments as the buyer is able to achieve funding. As at the date of these financial statements the Company has received $100,000 in cash of which $48,812 has been disbursed to accomplish the purposes of the Company and the remainder of $51,188 is in a trust account under the name of International Hedge Group. The shares associated with this purchase agreement are to be held in escrow until the obligation is satisfied. On June 30, 2016 the Company signed an extension agreement allowing for an extension to October 30, 2016 for fulfillment of this obligation. During the month of October 2016 International Hedge Group fulfilled the commitment by paying the remaining $100,000.

NOTE 14 - SUBSEQUENT EVENTS

Subsequent to the signing of the agreement between International Hedge Group, Inc. and the Company six major stockholders have agreed to surrender a total of 4,825,000 shares of common stock. As of the date of these financial statements a total of 1,000,000 shares have been surrendered. During the month of October 2016 the Company received the certificates for 3,825,000 shares to be submitted to the transfer agent for official cancellation.

During the month of October 2016 International Hedge Group fulfilled the commitment by paying the remaining balance of the $100,000 subscription receivable.

During the month of October 2016 the Company received an advance of $150,000 from International Hedge Group for working capital. It is the intention of the Company (Blackstar Enterprise Group, Inc.) to act as an incubator and merchant banking company. As an incubator and merchant banking company it will provide management consulting services and mid-term financial support (loans of less than 5 years duration). These funds along with others in hand were used to facilitate a loan to a client company. The note carries an interest rate of 12% with periodic payments based on the company’s revenues with a final due date of January 1, 2019. In addition the Company is to receive shares of convertible preferred stock in the client company.