Star Navigation Systems Group Ltd.

Consolidated Financial Statements

For the years ended June 30, 2012 and 2011

(Expressed in Canadian dollars)

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Chartered Accountants

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Star Navigation Systems Group Ltd.

We have audited the accompanying consolidated financial statements of Star Navigation Systems Group Ltd. and its subsidiaries which comprise the consolidated statements of financial position as at June 30, 2012, June 30, 2011 and July 1, 2010 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years ended June 30, 2012 and June 30, 2011 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Star Navigation Systems Group Ltd. and its subsidiaries as at June 30, 2012, June 30, 2011 and July 1, 2010, and its financial performance and its cash flows for the years ended June 30, 2012 and June 30, 2011 in accordance with International Financial Reporting Standards.

Collins Barrow Toronto LLP

Licensed Public Accountants
Chartered Accountants
October 23, 2012
Toronto, Ontario

Star Navigation Systems Group Ltd.
Consolidated Statements of Financial Position
As at June 30, 2012 and 2011 and as at July 1, 2010
(Expressed in Canadian dollars)

	June 30, 2012	June 30, 2011 (Note 20)	July 1, 2010 (Note 20)
Assets			
Current			
Cash and cash equivalents	**$ 67,262**	$ 1,721,524	$ 2,022,926
Accounts receivable	**60,821**	69,921	150,189
Inventory	**247,986**	-	-
Prepaid expenses and sundry receivables	**202,602**	404,356	88,681
	578,671	2,195,801	2,261,796
Property and equipment (Note 5)	**178,462**	143,282	100,788
Intangible assets (Note 6)	**432,227**	395,241	155,168
	$ 1,189,360	$ 2,734,324	$ 2,517,752
Liabilities			
Current			
Accounts payable and accrued liabilities (Note 7)	**$ 436,654**	$ 538,221	$ 365,721
Current portion of finance lease obligation (Note 8)	**34,383**	1,555	2,534
Due to related parties (Note 16)	**1,305,283**	1,635,957	1,709,782
Other payables (Note 9)	**196,000**	196,000	196,000
Deferred revenue	**10,000**	10,000	-
	1,982,320	2,381,733	2,274,037
Long term portion of accounts payable and accrued liabilities	**-**	-	13,423
Finance lease obligation (Note 8)	**65,167**	-	1,555
	2,047,487	2,381,733	2,289,015
Shareholders' Equity (Deficiency)			
Share capital (Note 10)	**26,280,393**	24,706,373	22,006,725
Contributed surplus (Note 11)	**11,258,453**	9,144,450	6,099,208
Deficit	**(38,396,973)**	(33,498,232)	(27,877,196)
	(858,127)	352,591	228,737
	$ 1,189,360	$ 2,734,324	$ 2,517,752

Nature of Operations (Note 1)

Commitments and Contingencies (Note 15)

Subsequent Event (Note 19)

Approved by the Board *"Viraf S. Kapadia"* — ***Director*** *(Signed)* *"Charles Wyburn"* — ***Director*** *(Signed)*

See accompanying notes

Star Navigation Systems Group Ltd.
Consolidated Statements of Loss and Comprehensive Loss
Years Ended June 30, 2012 and June 30, 2011
(Expressed in Canadian dollars)

	2012	2011 (Note 20)
Revenue (Note 17)	**$ 72,672**	$ 98,591
Expenses		
Cost of sales	**54,127**	78,979
Research and development (Note 18)	**1,038,675**	764,514
General and administrative (Note 18)	**1,496,229**	1,599,141
Marketing and promotion	**401,618**	413,339
Stock based compensation	**193,273**	900,174
Foreign exchange	**(30,312)**	83,441
	3,153,610	3,839,588
Loss from operations	**(3,080,938)**	(3,740,997)
Other Income (expenses)		
Interest income	**3,367**	-
Gain on settlement of debt	**18,428**	-
Lawsuit settlement	**-**	(17,215)
	21,795	(17,215)
Net Loss and Comprehensive Loss for the year	**$(3,059,143)**	$(3,758,212)
Basic and diluted loss per common share	**$(0.02)**	$(0.02)
Weighted average number of common shares outstanding	**195,819,950**	179,578,192

Star Navigation Systems Group Ltd.
Consolidated Statement of Changes in Equity
Years Ended June 30, 2012 and June 30, 2011
(Expressed in Canadian dollars)

	Number of common shares	Number of Series I preferred shares	Share capital	Contributed surplus	Deficit	**Total**
Balance at July 1, 2010 (Note 20)	169,843,406	615,000	$22,006,725	$6,099,208	$(27,877,196)	**$228,737**
Issued for cash on private placement (net of issuance costs)	15,939,000	-	2,314,067	-	-	**2,314,067**
Issued as finders' fees on private placement	506,400	-	126,600	-	-	**126,600**
Value allocated to warrants as part of private placement	-	-	(559,700)	559,700	-	**-**
Stock options exercised	2,706,172		421,225	-	-	**421,225**
Fair value of options exercised	-	-	210,310	(210,310)	-	**-**
Warrants exercised for cash	600,000	-	120,000	-		**120,000**
Value allocated to warrants exercised	-	-	67,146	(67,146)	-	**-**
Stock-based compensation	-	-	-	900,174	-	**900,174**
Warrant modification (Note 11)	-	-	-	1,862,824	(1,862,824)	**-**
Loss for the year	-	-	-	-	(3,758,212)	**(3,758,212)**
Balance at June 30, 2011 (Note 20)	189,594,978	615,000	24,706,373	9,144,450	(33,498,232)	**352,591**
Issued for cash on private placement (net of issuance costs)	15,200,000	-	1,358,890	-	-	**1,358,890**
Issued as finders' fees on private placement	1,520,000	-	152,000	-	-	**152,000**
Value allocated to warrants as part of private placement			(163,368)	163,368		**-**
Stock options exercised	925,100	-	144,262	-	-	**144,262**
Fair Value of options exercised	-	-	82,236	(82,236)	-	-
Stock-based compensation	-	-	-	193,273	-	**193,273**
Warrant modification (Note 11)				1,839,598	(1,839,598)	**-**
Loss for the year	-	-	-	-	(3,059,143)	**(3,059,143)**
Balance at June 30, 2012	207,240,078	615,000	$26,280,393	$11,258,453	$(38,396,973)	**$(858,127)**

Star Navigation Systems Group Ltd.
Consolidated Cash Flows
Years Ended June 30, 2012 and June 30, 2011
(Expressed in Canadian dollars)

	2012	2011 (Note 20)
Cash provided by (used in)		
Operations		
Net loss	**$(3,059,143)**	$(3,758,212)
Items not affecting cash		
Amortization	**130,633**	46,707
Stock-based compensation	**193,273**	900,174
	(2,735,237)	(2,811,331)
Net changes in non-cash working capital		
Accounts receivable	**9,100**	80,268
Inventory	**(247,986)**	-
Prepaid expenses and sundry receivables	**201,754**	(315,675)
Accounts payable and accrued liabilities	**(101,567)**	159,077
Due to related parties	**(330,674)**	50,250
Deferred revenue	**-**	10,000
	(3,204,610)	(2,827,411)
Investing		
Intangible asset additions	**(94,048)**	(244,213)
Property and equipment additions	**(912)**	(85,061)
	(94,960)	(329,274)
Financing		
Repayment of finance lease obligation	**(9,844)**	(2,534)
Issuance of capital stock net of share issuance costs	**1,655,152**	2,857,817
	1,645,308	2,855,283
Net change in cash and cash equivalents	**(1,654,262)**	(301,402)
Cash and cash equivalents, beginning of year	**1,721,524**	2,022,926
Cash and cash equivalents, end of year	**$ 67,262**	$ 1,721,524
Supplemental Disclosure		
Interest paid	**8,279**	10,819
Issuance of common shares for finder's fees (Note 10)	**152,000**	126,600

1. NATURE OF OPERATIONS

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. Certain technology used for this system as well as patents granted have been licensed to the Company by a director and a former director of the Company who undertook the initial research and development (Note 6). In March 2012, Transport Canada granted a STC certificate to the Company for use of the system on a Boeing 737-800.

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.

The Company has completed the development of their STAR-ISMS® The Company's registered head office is located at 203-2970 Lakeshore Blvd W., Toronto, Ontario M8V 1J7.

2. BASIS OF PRESENTATION

(a) Statement of Compliance

These 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"). This is the first time that the Company has prepared its financial statements in accordance with IFRS, having previously prepared its financial statements in accordance with pre-changeover Canadian Generally Accepted Accounting Principles (previous GAAP).

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 20.

The financial statements were authorized for issue by the Board of Directors on October 23, 2012.

(b) Basis of Measurement

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial assets which are measured at fair value through profit or loss ("FVTPL").

(c) Functional and presentation currency

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

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned operating subsidiaries, Star Navigation Systems Inc. ("Star"), Star Navigation Systems (Quebec) Inc. and Star Navigation Systems (U.K) Ltd. Star Navigation Systems (Quebec) Inc. and Star Navigation Systems (U.K) Ltd. are inactive. 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.

Cash and Cash Equivalents

Cash and cash equivalents include bank deposits such as guaranteed investment certificates, with maturities of less than three months.

Inventory

The Company's inventory consists of STAR-ISMS® units and 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 and Amortization

Property and Equipment are recorded at cost. Rates and bases of amortization applied to equipment over their estimated useful lives are as follows:

Leasehold improvements	- 5 years, straight-line
Aircraft	- 25% per annum, declining balance
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
Vehicles	- 30% per annum, declining balance

Intangible Assets

(a) Licenses

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 has been made. Ongoing costs represent out-of-pocket costs for various patent applications and processing. Costs directly attributable to the License 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. As the first country patent was granted in 2005, the Company commenced the amortization of these costs to operations from the time of acquisition (Note 6).

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Intangible Assets (Cont'd)

(b) 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 if the Company can demonstrate each 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. Costs that are capitalized, which include STAR-ISMS® and Peripherals, are amortized on a straight-line basis over their estimated useful life of 3 years. Amortization began on April 1, 2012 when the development project was completed and the STAR-ISMS® was ready for sale.

(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.

Impairment

(a) 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment (Cont'd)

(b) 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 to sell, 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. The Company has one cash-generating unit for which impairment testing is performed.

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.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 the risks specific to the liability.

Finance Leases

Lease agreements that effectively transfer substantially all the risks and rewards of ownership of the leased assets to the Company are classified as finance leases. Assets held under finance leases are initially recognized at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly as an expense. Finance leased assets are reported under the relevant asset categories, with recognition of a corresponding financial liability. They are depreciated on a 50% declining balance basis over the shorter of their estimated useful life or the term of the agreement.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Operating Leases

Lease agreements that do not meet the recognition criteria of a finance lease are classified and recognized as operating leases. Payments made under operating leases are expensed on a straight-line basis over the term of the related lease agreement.

Revenue Recognition

The Company recognizes revenue at the time persuasive evidence of an arrangement exists, 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 air time 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 Corporation's standard price list. If elements cannot be sold separately, revenue recognition is deferred until all elements have been delivered.

Investment Tax Credits

The Company accrues investment tax credits for qualifying research and development costs when there is reasonable assurance that the amounts are recoverable. The Company accounts for the investment tax credits relating to research and development expenses as a deduction in the statement of comprehensive loss and those relating to capital expenditures as a reduction of the cost of the assets acquired.

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)

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.

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 consideration received or provided, 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 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. In the case of unit placements, 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 capital stock are netted against the proceeds received. Any incremental fair value resulting upon modification of warrants previously issued as part of unit placements is recognized in deficit.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income Taxes (Cont'd)

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.

Accounting Estimates and Judgements

The preparation of consolidated financial statements in compliance with IFRS requires the Company's management to make certain estimates and assumptions that they consider reasonable and realistic. Despite regular reviews of these estimates and assumptions, based in particular on past achievements or anticipations, facts and circumstances may lead to changes in these estimates and assumptions which could impact the reported amount of the Company's assets, liabilities, equity or earnings. These estimates and assumptions notably relate to the amortization of and measurement of impairment of property and equipment and intangible assets, stock-based compensation, warrants, and deferred income taxes. These judgements notably relate to the provisions and contingencies, assessment of going concern uncertainties, application of the deferral criteria and determination of when development was completed on the STAR-ISMS®.

Financial Instruments

Financial assets are classified into one of the following categories based on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

(a) Financial assets at fair value through profit or loss ("FVTPL")

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as at FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management strategy. Attributable transaction costs are recognized in profit or loss when incurred. FVTPL are measured at fair value, and changes are recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial Instruments (Cont'd)

(b) Held-to-maturity ("HTM")

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the asset is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

(c) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted on an active market. Such assets are initially recognized at fair value plus any direct attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment loss.

(d) Available for sale ("AFS")

Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in profit or loss.

Financial liabilities are classified into one of two categories:

(a) Fair value through profit or loss

This category comprises derivatives, or liabilities, acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in profit or loss.

(b) Other financial liabilities

This category is recognized at amortized cost.

The Company has classified its financial assets and liabilities as follows:

Financial Instrument	Classification
Cash and cash equivalents	FVTPL
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Due to related parties	Other liabilities
Other payables	Other liabilities
Finance lease obligation	Other liabilities

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial Instruments (Cont'd)

The Company had no other comprehensive income or loss transactions during the years ended June 30, 2012 and 2011.

Fair Value Hierarchy

The following summarizes the methods and assumptions used in estimating the fair value of the Company's financial instruments where measurement is required. These include cash and cash equivalents. Fair value amounts represent point-in-time estimates and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and are a matter of significant judgement. The methods and assumptions used to develop fair value measurements, for those financial instruments where fair value is recognized in the balance sheet, have been prioritized into three levels as per the fair value hierarchy included in IFRS. Level one includes quoted prices (unadjusted) in active markets for identical assets or liabilities. Level two includes inputs that are observable other than quoted prices included in level one. Level three includes inputs that are not based on observable market data.

Fair Value Hierarchy (Cont'd)

June 30, 2012	**Level One**	**Level Two**	**Level Three**
Cash and cash equivalents	**$ 67,262**	**$ -**	**$ -**
June 30, 2011	Level One	Level Two	Level Three
Cash and cash equivalents	$ 1,721,524	$ -	$ -
July 1, 2010	Level One	Level Two	Level Three
Cash and cash equivalents	$ 2,022,926	$ -	$ -

4. RECENT ACCOUNTING PRONOUNCEMENTS ISSUED AND NOT YET APPLIED

Future IFRS changes

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods after June 30, 2012 or later periods. Many are not applicable or do not have a significant impact to the Company. The following have not yet been adopted and are being evaluated to determine the resultant impact on the Company.

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

Future IFRS changes (Cont'd)

(i) IFRS 9 *Financial Instruments* was issued by the IASB in October 2010 and will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

(ii) IFRS 10 Consolidated Financial Statements was issued by the IASB in May 2011. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces the consolidation requirements in SIC-12 Consolidation—Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

(iii) IFRS 11 Joint Arrangements was issued by the IASB in May 2011. IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities - Non-Monetary Contributions by Venturers, and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

(iv) IFRS 12 Disclosure of Interests in Other Entities was issued by the IASB in May 2011. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

(v) IFRS 13 Fair Value Measurement was issued by the IASB in May 2011. IFRS 13 establishes new guidance on fair value measurement and disclosure requirements for IFRSs and US generally accepted accounting principles (GAAP). The guidance, set out in IFRS 13 and an update to Topic 820 in the FASB's Accounting Standards Codification (formerly referred to as SFAS 157), completes a major project of the boards' joint work to improve IFRSs and US GAAP and to bring about their convergence. The standard is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

(vi) IAS 1 Presentation of Financial Statements was amended by the IASB in June 2011 in order to align the presentation of items in other comprehensive income with US GAAP standards. Items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012.

(Expressed in Canadian dollars)

5. PROPERTY AND EQUIPMENT

	Leasehold Improvement	Aircraft	Furniture and Equipment	Computer Equipment and Software	Computer Equipment under Finance Lease	Vehicles	Total
Cost							
Balance at July 1, 2010	$81,114	$-	$69,180	$107,225	$8,262	$6,690	**$272,471**
Additions	2,600	50,951	-	31,510	-	-	**85,061**
Balance at June 30, 2011	83,714	50,951	69,180	138,735	8,262	6,690	**$357,532**
Additions	912	-	-	-	107,839	-	**108,751**
Balance at June 30, 2012	$84,626	$50,951	$69,180	$138,735	$116,101	$6,690	**$466,283**
Accumulated amortization							
Balance at July 1, 2010	$12,270	$-	$57,096	$92,692	$6,133	$3,492	**$171,683**
Amortization for period	16,613	6,369	2,418	15,144	1,064	959	**42,567**
Balance at June 30, 2011	28,883	6,369	59,514	107,836	7,197	$4,451	**214,250**
Amortization for period	16,880	11,145	1,932	15,450	27,492	672	**73,571**
Balance at June 30, 2012	$45,763	$17,514	$61,446	$123,286	$34,689	$5,123	**$287,822**
Carrying Amounts							
As at July 1, 2010	$68,844	$-	$12,084	$14,533	$2,129	$3,198	**$100,788**
As at June 30, 2011	$54,831	$44,582	$9,666	$30,899	$1,065	$2,239	**$143,282**
As at June 30, 2012	$38,863	$33,437	$7,734	$15,449	$81,412	$1,567	**$178,462**

6. INTANGIBLE ASSETS

	Licenses	Website Costs	STAR-ISMS® and Peripherals	Total
Cost				
Balance at July 1, 2010	$133,006	$-	$146,305	**$279,311**
Additions	3,140	-	241,073	**244,213**
Balance at June 30, 2011	136,146	-	387,378	**523,524**
Additions	-	18,500	75,548	**94,048**
Balance at June 30, 2012	$136,146	$18,500	$462,926	**$617,572**
Accumulated Amortization				
Balance at July 1, 2010	$124,143	$-	$-	**$124,143**
Amortization for period	4,140	-	-	**4,140**
Balance at June 30, 2011	128,283	-	-	**128,283**
Amortization for period	1,001	4,625	51,436	**57,062**
Balance at June 30, 2012	$129,284	$4,625	$51,436	**$185,345**
Carrying Amounts				
As at July 1, 2010	$8,863	$-	$146,305	**$155,168**
As at June 30, 2011	$7,863	$-	$387,378	**$395,241**
As at June 30, 2012	$6,862	$13,875	$411,490	**$432,227**

(Expressed in Canadian dollars)

6. INTANGIBLE ASSETS (Cont'd)

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 one director of the Company (see Note 16). The Company owns the exclusive, worldwide license for the lifetime of the patents.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2012	June 30, 2011	July 1, 2010
Trade payables	**$191,074**	$169,001	$262,093
Accrued liabilities and other	**245,580**	369,220	103,628
	$436,654	$538,221	$365,721

8. FINANCE LEASE OBLIGATION

During the year ended June 30, 2008, the Company entered into a finance lease for computer equipment. The gross amount of the minimum lease payments related to assets under finance lease was $7,650. The lease bore interest at 15.92%. The term of the lease was for 48 monthly payments and expired on January 10, 2012.

During the year ended June 30, 2012, the Company entered into a finance lease for computer equipment. The gross amount of the minimum lease payments related to assets under the finance lease was $117,745. The lease bears interest at 5.80%. The term of the lease is for 36 monthly payments, expiring on March 1, 2015. The following is a schedule of the future minimum lease payments under this finance lease expiring by 2015 together with the balance of the obligation under the finance lease.

	June 30, 2012
2013	**$ 39,248**
2014	**39,248**
2015	**29,437**
Total minimum payments	**107,933**
Less: interest at the implicit rate of 5.8%	**(8,383)**
Balance of the obligation	**99,550**
Less: current portion	**(34,383)**
	$ 65,167

(Expressed in Canadian dollars)

9. OTHER PAYABLES

Other payables are amounts due to a former employee of the Company with respect to compensation, and are unsecured, non-interest bearing with no fixed terms of repayment.

10. 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.
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. Redeemable at $1.00 per share at the option of the Company.
Unlimited	common shares

Issued during period

(a) On September 20, 2010, the Company completed a non-brokered private placement of 10,875,000 units (the “Units”) of the Company at an issue price of $0.12 per Unit for gross proceeds totaling $1,305,000. Each Unit consists of one common share and one common share purchase warrant (a “Warrant”). Each Warrant entitles the holder to purchase one common share of the Company (a “Warrant Share”) at a price of $0.20 per Warrant Share for a term of 24 months from the closing date. Finder's fee in the amount of $115,400 in cash was paid in connection with this private placement. All securities issued in the offering and any shares issued upon exercise of Warrants are subject to a four month statutory hold period from the date of issuance.

(b) On June 22, 2011, the Company completed a non-brokered private placement of 5,064,000 units (the “Units”) of the Company at an issue price of $0.25 per Unit for gross proceeds totaling $1,266,000. Each Unit consists of one common share and one-half common share purchase warrant (a “Warrant”). Each full Warrant entitles the holder to purchase one common share of the Company (a “Warrant Share”) at a price of $0.50 per Warrant Share for a term of 24 months from the closing date. Finder's fees in the amount of 506,400 common shares and 253,200 warrants were issued in connection with this private placement. Each warrant is exercisable at a price of $0.50 per Warrant Share for a term of 24 months from the closing date. Finder’s fees warrants and related financings were measured at the fair value of the equity instruments granted as the fair value of services was not reliably measurable. All securities issued in the offering and any shares issued upon exercise of Warrants are subject to a four month statutory hold period from the date of issuance.

(Expressed in Canadian dollars)

10. SHARE CAPITAL (Cont'd)

Issued during period (Cont'd)

(c) On February 27, 2012, the Company completed a non-brokered private placement of 15,200,000 units of the Company at an issue price of $0.10 per unit for gross proceeds totaling $1,520,000. Each unit consists of one common share and one common share purchase warrant (a "Warrant"). Each warrant entitles the holder to purchase one additional common share at a price of $0.30 per share for a term of 24 months from the closing date. Common shares totaling 1,520,000 valued at $152,000 were issued to satisfy finders' fees in connection with this private placement. Finder's fees warrants and related financings were not measured at the fair value of the services received as the fair value of such services was not reliably measurable. All securities issued in the offering and any shares issued upon exercise of Warrants are subject to a four month statutory hold period from the date of issuance.

11. 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 July 1, 2010	**17,245,000**	**$0.20-$0.29**	**$ 0.21**
Issued	2,900,000	$0.15-$0.29	$ 0.20
Exercised	(2,706,172)	$0.10-$0.22	$ 0.14
Expired	(2,115,000)	$0.11-$0.30	$ 0.24
Balance at June 30, 2011	**15,323,828**		**$ 0.22**
Issued	2,280,000	$0.10-$0.20	$ 0.14
Exercised	(925,100)	$0.11-$0.21	$ 0.16
Expired	(1,618,000)	$0.15-$0.21	$ 0.18
Balance at June 30, 2012	**15,060,728**		**$ 0.19**
Exercisable at June 30, 2012	**12,868,228**		**$ 0.20**

The weighted average share price at the date of exercise was $0.16 for options exercised during the year ended June 30, 2012 (2011 - $0.23).

(Expressed in Canadian dollars)

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

As at June 30, 2012 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
October 30, 2007	300,000	300,000	$0.25	October 29, 2012
December 15, 2007	1,400,000	1,400,000	$0.20	December 15, 2012
March 31, 2008	300,000	300,000	$0.15	March 30, 2015
August 21, 2008	440,000	440,000	$0.11	August 20, 2013
November 6, 2008	202,828	202,828	$0.15	November 5, 2013
December 23, 2008	152,900	152,900	$0.11	December 30, 2012
June 30, 2009	675,000	675,000	$0.10	June 14, 2014
January 8, 2010	315,000	315,000	$0.15-$0.21	January 1, 2015
February 8, 2010	4,045,000	4,045,000	$0.10-$0.25	February 7, 2013
February 26, 2010	500,000	500,000	$0.26	January 1, 2015
March 30, 2010	2,025,000	2,025,000	$0.15-$0.32	March 31, 2015
June 3, 2010	450,000	450,000	$0.15-$0.22	March 31, 2015
February 4, 2011	500,000	500,000	$0.21	January 1, 2015
February 10, 2011	100,000	100,000	$0.20	January 1, 2015
February 14, 2011	525,000	450,000	$0.20-$0.21	February 14, 2013
February 25, 2011	500,000	500,000	$0.29	February 24, 2016
May 31, 2011	350,000	350,000	$0.15-$0.21	May 31, 2014
February 17, 2012	350,000	162,500	$0.12-$0.20	February 18, 2015
June 6, 2012	1,930,000	-	$0.10-$0.20	April 15, 2015
	15,060,728	12,868,228		

The fair value of the options is recognized over the vesting period as compensation expense and contributed surplus. Stock options granted to non-employees were measured at the fair value of the equity instruments granted as the fair value of services was not reliably measurable. The fair value of the stock options granted is determined using the Black-Scholes model for pricing options under the following weighted average assumptions:

	2012	2011
Expected dividend yield	**Nil**	Nil
Risk free interest rate	**1.41%**	1.85%
Expected volatility	**85%**	103%
Expected life	**2.81 years**	2.71 years
Share price	**$0.08**	$0.24

Expected volatility is based on historical data.

(Expressed in Canadian dollars)

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

Warrants

	Number of Warrants		**Weighted-average Exercise Price**	**Expiry Date**
Balance at July 1, 2010	54,676,446		$0.29	
Issued	10,875,000	(i)	$0.20	Sept 20, 2012
Issued	2,532,000	(i)	$0.50	June 22, 2013
Issued	253,200	(i)	$0.50	June 22, 2013
Exercised	(600,000)		$(0.20)	
Balance at June 30, 2011	67,736,646		$0.26	
Expired	(13,500,766)		$(0.21)	
Issued	15,200,000	(ii)	$0.30	February 27, 2014
Balance at June 30, 2012	69,435,880		$0.27	

All warrants are exercisable on issuance.

(i) These warrants were issued as part of unit financings in fiscal 2011 (Note 10).

(ii) These warrants were issued as part of a unit financing in February 2012 (Note 10)

On January 6, 2011, the Company extended the term of 4,244,465 common share purchase warrants that were issued by the Company as part of the private placements that occurred on December 3, 2008. The term of these warrants were extended by 1.9 years, accordingly, the incremental fair value of these warrants has been estimated using the Black-Scholes option pricing model using the following assumptions: share price of $0.21, risk-free rate of 1.67%, expected volatility of 101% and expected life of 1.9 years, and an expected dividend of 0%. Expected volatility is based on historical data.

On January 6, 2011, the Company extended the term of 3,052,550 common share purchase warrants that were issued by the Company as part of the private placements that occurred on April 9, 2009. The term of these warrants were extended by 1.9 years, accordingly, the incremental fair value of these warrants has been estimated using the Black-Scholes option pricing model using the following assumptions: share price of $0.21, risk-free rate of 1.67%, expected volatility of 101% and expected life of 1.9 years, and an expected dividend of 0%. Expected volatility is based on historical data.

On January 6, 2011 the Company extended the term of 10,501,666 common share purchase warrants that were issued by the Company as part of the private placements that occurred on November 10, 2009. The term of these warrants were extended by 1.9 years, accordingly, the incremental fair value of these warrants has been estimated using the Black-Scholes option pricing model using the following assumptions: share price of $0.21, risk-free rate of 1.67%, expected volatility of 101% and expected life of 1.9 years, and an expected dividend of 0%. Expected volatility is based on historical data.

(Expressed in Canadian dollars)

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

On January 6, 2011, the Company extended the term of 3,428,333 common share purchase warrants that were issued by the Company as part of the private placements that occurred on December 4, 2009. The term of these warrants were extended by 1.9 years, accordingly, the incremental fair value of these warrants has been estimated using the Black-Scholes option pricing model using the following assumptions: share price of $0.21, risk-free rate of 1.67%, expected volatility of 101% and expected life of 1.9 years, and an expected dividend of 0%. Expected volatility is based on historical data.

On November 23, 2011, the Company extended the term of 19,948,666 common share purchase warrants that were issued by the Company as part of the private placements that occurred on January 12, 2010. The term of these warrants were extended by 2.0 years, accordingly, the incremental fair value of these warrants has been estimated using the Black-Scholes option pricing model using the following assumptions: share price of $0.18, risk-free rate of 1.25%, expected volatility of 80% and expected life of 2.14 years, and an expected dividend of 0%. Expected volatility is based on historical data.

The Black-Scholes value attributed to these modifications was $1,839,598 (2011 - $1,862,824) and has been recorded in deficit.

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

	2012	2011
Expected dividend yield	**Nil**	Nil
Risk free interest rate	**1.25%**	1.68%
Expected volatility	**72%**	101%
Expected Life	**2.0 years**	1.7 years
Share price	**$0.10**	$0.11

Expected volatility is based on historical data.

(Expressed in Canadian dollars)

12. INCOME TAXES

(a) Income Tax Expense

Major items causing the Company's income tax rate to vary from the Canadian statutory rate of approximately are as follows:

	2012	2011
Loss before income taxes	**$ (3,059,143)**	$ (3,758,212)
Statutory rate	**27.25%**	29.26%
Income tax provision at statutory rate	**$ (833,600)**	$ (1,099,700)
Effect of income tax of:		
Non-deductible expense	**53,400**	265,300
Share issuance costs	**(2,400)**	(32,600)
Change in tax rates and other	**(286,900)**	123,700
Change in deferred taxes not recognized	**1,069,500**	743,300
Provision for income taxes	**$ -**	$ -

(b) Deferred Income Taxes

The approximate tax effect of each type of temporary difference that gives rise to the Company's deferred income tax assets is as follows:

	2012	2011	2010
Non-capital losses carried forward	**$6,051,500**	$5,010,800	$ 4,287,000
Equipment and license	**125,400**	85,600	76,200
Share issue costs	**32,000**	43,000	32,900
	6,208,900	5,139,400	4,396,100
Less: Deferred taxes not recognized	**(6,208,900)**	(5,139,400)	(4,396,100)
	$ -	$ -	$ -

The Company estimates that it will have approximately $22,836,000 of non-capital losses carried forward which may be utilized to reduce Canadian taxable income in future years. To the extent they are not utilized, the non-capital losses carried forward expire as follows:

2014	$ 2,022,000
2015	1,700,000
2026	2,700,000
2027	2,600,000
2028	2,900,000
2029	2,766,000
2030	2,442,000
2031	2,895,000
2032	2,811,000
	$ 22,836,000

13. CAPITAL RISK MANAGEMENT

The Company includes equity, comprised of issued share capital, contributed surplus and deficit, in the definition of capital.

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to develop, market and promote its STAR-ISMS® technology and to maintain its ongoing operations. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity and warrants or by securing strategic partners.

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the year ended June 30, 2012.

14. FINANCIAL RISK MANAGEMENT

The Company is exposed to a variety of financial risks by virtue of its activities: market risk (including currency risk and interest rate risk), fair value risk, credit risk and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance.

Risk management is carried out by management under policies approved by the Board of Directors. Management is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the approved policies.

(a) Market Risk

(i) Currency risk:

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. A 1% change in the foreign exchange rate would have a $5,000 impact on foreign exchange gain.

As at June 30, 2012 the Company held $36,855 (2011 - $492,927) of cash and cash equivalents in US dollars.

(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.

14. FINANCIAL RISK MANAGEMENT (Cont'd)

(b) Fair Value Risk

The carrying amount of cash and cash equivalents, accounts receivables, accounts payable and accrued liabilities, due to related parties and other payables (Notes 9 and 16) approximate their fair values due to the short-term maturities of these instruments. The long-term portion of accounts payable and accrued liabilities and finance lease obligation has been discounted at a rate that approximates current market rates and therefore, approximates fair value.

(c) Credit Risk

The Company does not believe it is exposed to any significant concentration of credit risk. However, as disclosed in Note 17, the Company earns a significant amount of revenue from one customer. As at June 30, 2012, approximately $34,946 (2011 - $32,364) of the Company's receivables were past due the average credit period of 90 days.

(d) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due.

The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of planned expenditures.

As at June 30, 2012, the Company has current liabilities of $1,997,320 due within 12 months and has cash of $67,262 to meet its current obligations. As at June 30, 2012 the Company has working capital deficiency of $1,403,649 and accordingly, the Company is subject to liquidity risk. Subsequent to the year end, the Company completed a private placement for gross proceeds of over $2 million (Note 19). Management will continue to raise capital to develop, market and promote its STAR-ISMS® technology and to maintain its ongoing operations.

(Expressed in Canadian dollars)

15. COMMITMENTS AND CONTINGENCIES

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

Year	Premises	Equipment	Total
2013	144,000	7,140	$ 151,140
2014	144,000	7,140	151,140
2015	144,000	7,140	151,140
2016	36,000	7,140	43,140
2017	-	7,140	7,140
	468,000	35,700	$ 503,700

(b) The Company has filed a notice of dismissal of its patent infringement lawsuit against Aeromechanical Services Ltd. (TSX-V: AMS). There was still a pending counterclaim in Ontario as at June 30, 2011. AMS has filed a counterclaim against the Company claiming, among other things, $5,000,000 for lost revenue and investment capital, $10,000,000 for loss of reputation and $5,000,000 for loss of goodwill. No amounts had been accrued in the financial statements. During the year ended June 30, 2012, the Company settled the matter with AMS without payments or costs to either party.

(c) An agreement was entered into between 2283188 Ontario Limited (the “Licensor”), a Company controlled by a shareholder, director and officer of the Company, and the Company, which requires royalties to be payable by the Company to the Licensor in the amount of:

a. 3% of gross revenues from all sales of airborne ISMS units;
b. 10% of all service fees; and
c. 10% of all usage.

16. RELATED PARTY TRANSACTIONS

The Company has accrued and carries a significant balance on its financial statements of amounts due to related parties. The amounts represent compensation accrued with respect to salary compensation for its officers, monthly compensation accrued for its directors, advisory board members and committee chairpersons that have 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 budgeting, new sales contracts or joint ventures anticipated and any other issues that management deems necessary.

Advisory Board members were business people with expertise in the Aviation industry who helped the Company attain access to the decision makers of major airlines to help promote the Company’s STAR-ISMS®. They are remunerated at the rate of $15,000 per year. As of January 31, 2012 the Company has disbanded the Strategic Advisory Board.

16. RELATED PARTY TRANSACTIONS (Cont'd)

Committee Chairpersons are selected from amongst the Directors of the Company to lead the Audit, Compensation and Corporate Governance committees. Chairpersons are remunerated at the following rates; Audit Chairman - $2,000 per month accrued, Corporate Governance Chairman - $1,000 per month paid, Human Resources Chairman - $1,000 per month accrued. All of the above amounts are recognized in the financial statements of the Company. The terms for repayment of the amounts owing to the various Board, Advisory 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 done by the Company. Such amounts are non-interest bearing and unsecured.

At June 30, 2012, management estimates that there is the potential for the amounts due to be paid in the next fiscal year, and accordingly they have been classified as current liabilities. The only fixed contractual obligations the Company has with related parties are the compensation contracts it has with the CEO, COO, CTO and CFO.

The following balances are due to related parties as of June 30, 2012:

Due to Directors - $156,000 (2011 - $227,000, 2010 - $152,250), Due to Advisory Board members - $92,676 (2011 - $100,000, 2010 - $100,000) and Due to Committee Chairpersons - $30,000 (2011 - $94,000, 2010 - $72,000). Due to Chief Technology Officer and member of the Board of Directors - $6,000 (2011 - $12,000, 2010 - $95,576), which amount resulted from the accrual of salary, and Due to Chief Executive Officer and Chairman of the Board of Directors - $990,749 (2011 – $1,174,866, 2010 - $1,264,866).

This amount resulted from salary accrual in prior years including certain years where as CEO, no salary was taken due to the economic limitations the Company was experiencing at the time. The CEO also financed the Company at various times when the Company was experiencing funding shortfalls and deferred repayment until the Company attained financial stability.

Included on the statement of comprehensive loss for the year ended June 30, 2012, in general and administrative expenses is $690,167 (2011 - $656,000) in fees paid and accrued to directors and officers of the Company. An amount of $282,000 (2011 - $282,000) was paid to the Company CEO.

Board of Directors fees of $59,000 (2011 - $74,750) were accrued. Advisory Board fees of $31,167 (2011 - $62,000) were accrued. Chairperson fees of $18,000 (2011 - $18,000) were accrued. Included in research and development is $107,000 (2011 - $180,000) in fees paid and accrued to the Chief Technology Officer and a director of the Company (the individual was terminated from his position as Chief Technology Officer effective February 1, 2012 and resigned as a director of the Company on April 13, 2012). Payments to the Chief Operating Officer $150,000 (2011 - $71,250) were accrued. Professional fees of $70,000 (2011 – $52,500) were paid to the Chief Financial Officer of the Company.

The amounts owing to the related parties are unsecured, non-interest bearing with no fixed terms of repayment.

See also Notes 6, 9 and 15(c).

(Expressed in Canadian dollars)

16. RELATED PARTY TRANSACTIONS (Cont'd)

Key management personnel are comprised of the Company's directors and executive officers. In addition to their salaries, key management personnel also participate in the Company's share option program (Note 11).

	2012	2011
Salaries and wages	**$618,080**	$784,700
Stock-based compensation	**15,483**	198,950
Total	**$633,563**	$983,650

17. SIGNIFICANT CUSTOMER

During the period ended June 30, 2012, 71% (2011 - 64%) of the revenue was generated from one customer.

18. EXPENSE DISCLOSURES

Employee benefits totaling $1,200,430 (2011 - $875,367) are included in research and development and general and administrative in the amounts of $674,011 (2011 - $516,435) and $526,419 (2011 - $358,932), respectively. Amortization of $130,633 (2011 - $46,707) is included in research and development.

19. SUBSEQUENT EVENT

The Company completed a non-brokered private placement of 26.1 million units of the Company at an issue price of eight cents per unit for gross proceeds totaling $2,088,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at a price of 20 cents per warrant share for a term of 60 months from the closing date. Finders' fees in the amount of $189,850 will be paid in units in connection with this private placement. Due to related parties in the amount of approximately $197,000 were converted into common shares as part of this placement.

20. RECONCILIATION FROM CANADIAN GAAP TO IFRS

As stated in Statement of Compliance (note 2), these are the Company's first annual consolidated financial statements prepared in accordance with IFRS.

The policies set out in the Significant Accounting Policies section have been applied in preparing the financial statements for the year ended June 30, 2012 and 2011 and in the preparation of an opening IFRS balance sheet at July 1, 2010 (the Company's date of transition).

20. RECONCILIATION FROM CANADIAN GAAP TO IFRS (Cont'd)

The policies set out in the Significant Accounting Policies section have been applied in preparing the financial statements for the year ended June 30, 2012 and 2011 and in the preparation of an opening IFRS balance sheet at July 1, 2010 (the Company's date of transition).

The policies set out in the Significant Accounting Policies section have been applied in preparing the financial statements for the year ended June 30, 2012 and 2011 and in the preparation of an opening IFRS balance sheet at July 1, 2010 (the Company's date of transition).

The Company has followed the recommendations in IFRS-1 First-time adoption of International Financial Reporting Standards, in preparing its transitional statements. IFRS-1 provides specific one-time choices and mandates specific one-time exceptions with respect to first-time adoption of IFRS.

(a) Business Combinations

IFRS 1 allows that a first-time adopter may elect not to apply IFRS 3 Business Combinations retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has taken advantage of this election and has not applied IFRS 3 to business combinations that occurred before July 1, 2010.

(b) Share-based payment transactions

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 Share-based Payment to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the date of transition to IFRS, July 1, 2010. The Company did not apply IFRS 2 to awards that were granted on or before November 7, 2002 and to those granted after November 7, 2002, which were vested by July 1, 2010.

(c) Extinguishing financial liabilities with equity instruments

IFRS 1 allows, but does not require, first-time adopters to apply IFRIC 19 Extinguishing financial liabilities with equity instruments that occurred before the date of transition to IFRS. The Company has taken advantage of this election and has not applied IFRIC 19 to extinguishments of financial liabilities with equity instruments that occurred before July 1, 2010.

Additionally, the Company has applied the following mandatory exception as at the transition date.

Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of July 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

20. RECONCILIATION FROM CANADIAN GAAP TO IFRS (Cont'd)

In preparing its opening statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position and financial performance is set out in the following tables and the additional notes that accompany the tables.

Notes to the reconciliation of assets, liabilities and equity:

a) Stock based compensation

Under IFRS, graded vesting awards must be accounted for as though each instalment is a separate award. IFRS doesn't provide for an election to treat the instruments as a pool, determine the aggregate fair value using an average life of the instruments and recognize compensation cost on a straight-line basis, as elected by the Company under Canadian GAAP.

Under IFRS, the estimates of the number of equity-settled awards that vest are adjusted to the actual number that vests, unless forfeitures are due to market-based conditions. There is no choice to accrue compensation cost as if all instruments granted were expected to vest and recognize the effect of the forfeitures as they occur as elected by the Company under Canadian GAAP.

Under IFRS, when the grant date occurs after the service commencement date, the recognition of services during the period from service commencement date until grant date would be based on the estimated fair value at grant date and adjusted subsequently to the actual grant date fair value. Unlike IFRS, unless the award is granted, there is no ability to commence the recognition of the cost under Canadian GAAP.

The above differences resulted in a significant transitional impact as follows;

For the period of beginning July 1, 2010, the use of grading vesting awards and forfeiture estimates resulted in an adjustment to increase the opening deficit by $813,053 and a corresponding increase to contributed surplus of the same amount.

For the year-ended June 30, 2011 the net adjustment to stock-based compensation was a decrease of $349,583 resulting in a corresponding decline in net comprehensive loss of $349,583.

The cumulative impact to the Company's financial statements for the change-over to IFRS was an increase to deficit of $463,470 for the year-ended June 30, 2011.

b) Asset reclassification

The Company reclassified the production equipment from property and equipment to intangible assets, and renamed to STAR-ISMS® and Peripherals, on transition to IFRS.

20. RECONCILIATION FROM CANADIAN GAAP TO IFRS (Cont'd)

c) Due to related parties

Under IFRS, a liability that is payable on demand is classified as current even if the holder has agreed, after the reporting date but before the financial statements are authorized for issue, not to demand repayment.

Due to related parties included an amount of $1,000,000 that was classified as non-current as at June 30, 2011 under Canadian GAAP, as the lender had agreed not to demand repayment for more than 12 months. However, since the lender's acceptance was obtained subsequent to the reporting date, the amount has been classified as current under IFRS as at June 30, 2011.

d) Expense reclassification

The Company reclassified their expenses to be disclosed by function on transition to IFRS.

(Expressed in Canadian dollars)

20. RECONCILIATION FROM CANADIAN GAAP TO IFRS (Cont'd)

Consolidated Statement of Financial Position

At date of IFRS transition July 1, 2010	Note	Canadian GAAP	Effect of Transition to IFRS	IFRS
Assets				
Current				
Cash and cash equivalents		$ 2,022,926	$ -	$ 2,022,926
Accounts receivable		150,189	-	150,189
Prepaid expenses and sundry receivables		88,681	-	88,681
		2,261,796	-	2,261,796
Property and equipment	(b)	247,093	(146,305)	100,788
Intangible assets	(b)	8,863	146,305	155,168
		$ 2,517,752	$ -	$ 2,517,752
Liabilities				
Current				
Accounts payables and accrued liabilities		$ 365,721	$ -	$ 365,721
Current portion of finance lease obligation		2,534	-	2,534
Due to related parties		1,709,782	-	1,709,782
Other payables		196,000	-	196,000
Deferred revenue		-		-
		2,274,037	-	2,274,037
Long term portion of accounts payable and accrued liabilities		13,423	-	13,423
Finance lease obligation		1,555	-	1,555
		2,289,015	-	2,289,015
Shareholders' Equity (Deficiency)				
Share capital		22,006,725	-	22,006,725
Contributed Surplus	(a)	5,286,155	813,053	6,099,208
Deficit	(a)	(27,064,143)	(813,053)	(27,877,196)
		228,737	-	228,737
		$ 2,517,752	$ -	$ 2,517,752

(Expressed in Canadian dollars)

20. RECONCILIATION FROM CANADIAN GAAP TO IFRS (Cont'd)

Consolidated Statement of Financial Position

At June 30, 2011	Note	Canadian GAAP	Effect of Transition to IFRS	IFRS
Assets				
Current				
Cash and cash equivalents		$ 1,721,524	$ -	$ 1,721,524
Accounts receivable		69,921	-	69,921
Prepaid expenses and sundry receivables		404,356	-	404,356
		2,195,801	-	2,195,801
Property and equipment	(b)	530,660	(387,378)	143,282
Intangible assets	(b)	7,863	387,378	395,241
		$ 2,734,324	$ -	$ 2,734,324
Liabilities				
Current				
Accounts payables and accrued liabilities		$ 538,221	$ -	$ 538,221
Current portion of finance lease obligation		1,555	-	1,555
Due to related parties	(c)	635,957	1,000,000	1,635,957
Other payables and deferred revenue		206,000	-	206,000
		1,381,733	1,000,000	2,381,733
Due to related parties	(c)	1,000,000	(1,000,000)	-
		2,381,733	-	2,381,733
Shareholders' Equity (Deficiency)				
Share capital		24,706,373	-	24,706,373
Contributed surplus	(a)	8,680,980	463,470	9,144,450
Deficit	(a)	(33,034,762)	(463,470)	(33,498,232)
		352,591	-	352,591
		$ 2,734,324	$ -	$ 2,734,324

(Expressed in Canadian dollars)

20. RECONCILIATION FROM CANADIAN GAAP TO IFRS (Cont'd)

Consolidated Statement of Loss and Comprehensive Loss

For the year ended June 30, 2011	Notes	Canadian GAAP	Effect of Transition to IFRS	IFRS
Revenue		$ 98,591	$ -	$ 98,591
Expenses				
Cost of sales		78,979	-	78,979
Research and development	(d)	717,807	46,707	764,514
General and administrative	(d)	953,091	646,050	1,599,141
Marketing and promotion		413,339	-	413,339
Professional fees	(d)	646,050	(646,050)	-
Stock-based compensation	(a)	1,249,757	(349,583)	900,174
Foreign exchange gain (loss)		83,441	-	83,441
Amortization	(d)	46,707	(46,707)	-
		4,189,171	(349,583)	3,839,588
Loss from operations		(4,090,280)	349,583	(3,740,997)
Other income (expenses)				
Lawsuit settlement		(17,215)	-	(17,215)
Net loss and comprehensive loss for the year		(4,107,795)	349,583	(3,758,212)
Basic and diluted loss per common share		$ (0.02)		$ (0.02)

(Expressed in Canadian dollars)

20. RECONCILIATION FROM CANADIAN GAAP TO IFRS (Cont'd)

Consolidated Statement of Cash Flows

For the year ended June 30, 2011	Notes	Canadian GAAP	Effect of Transition to IFRS	IFRS
Cash provided by (used in)				
Operations				
Net loss	(a)	$(4,107,795)	$349,583	$(3,758,212)
Items not affecting cash				
Amortization		46,707	-	46,707
Stock-based compensation	(a)	1,249,757	(349,583)	900,174
		(2,811,331)	-	(2,811,331)
Net changes in non-cash working capital				
Accounts receivable		80,268	-	80,268
Prepaid expenses and sundry receivables		(315,675)	-	(315,675)
Accounts payable and accrued liabilities		159,077	-	159,077
Due to related parties		50,250	-	50,250
Deferred revenue		10,000	-	10,000
		(2,827,411)	-	(2,827,411)
Investing				
Intangible asset additions	(b)	-	(244,213)	(244,213)
Property and equipment additions	(b)	(329,274)	244,213	(85,061)
		(329,274)	-	(329,274)
Financing				
Repayment of finance lease obligation		(2,534)	-	(2,534)
Issuance of capital stock, net of share issuance costs		2,857,817	-	2,857,817
		2,855,283	-	2,855,283
Net change in cash and cash equivalents		(301,402)	-	(301,402)
Cash and cash equivalents, beginning of year		2,022,926	-	2,022,926
Cash and cash equivalents, end of year		$1,721,524	-	$1,721,524