

Star Navigation Systems Group Ltd.

Condensed Interim Consolidated Financial Statements

(Unaudited)

**For the three and six month periods ended December 31, 2014 and
December 31, 2013**

(Expressed in Canadian dollars)

NOTICE TO READER

The accompanying unaudited condensed interim consolidated financial statements have been prepared by the Company's management and the Company's independent auditors have not performed a review of these financial statements.

Toronto, Ontario
March 2, 2015

Star Navigation Systems Group Ltd.
Unaudited Condensed Interim Consolidated Statements of Financial Position
As at December 31, 2014
(Expressed in Canadian dollars)

	December 31, 2014	June 30, 2014 (Audited)
Assets		
Current		
Cash and cash equivalents	\$ 199,709	\$ 134,940
Accounts receivable (Note 16(c))	241,530	60,144
Inventory	401,248	440,164
Prepaid expenses and sundry receivables (Note 8)	416,185	284,675
	1,258,672	919,923
Property and equipment (Note 5)	292,905	369,394
Development and other assets (Note 6 and 7)	896,796	1,043,278
	\$ 2,448,373	\$ 2,332,595
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 9)	\$ 609,405	\$ 248,321
Current portion of finance lease obligation (Note 10)	83,133	92,243
Due to related parties (Note 17)	1,493,781	1,201,080
Other payables (Note 11)	196,000	196,000
Deferred revenue	37,296	64,039
	2,419,615	1,801,683
Finance lease obligation (Note 10)	52,026	88,398
	2,471,641	1,890,081
Shareholders' Equity (Deficiency)		
Share capital (Note 12)	32,508,059	31,700,633
Contributed surplus (Note 13)	14,551,728	14,437,659
Deficit	(47,083,055)	(45,695,778)
	(23,268)	442,514
	\$ 2,448,373	\$ 2,332,595

Nature of Operations (Note 1)

Commitments and Contingencies (Note 16)

Approved by the Board "Viraf S. Kapadia"
Director (Signed)

 "Gus Nariman"
Director (Signed)

Star Navigation Systems Group Ltd.

Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

Periods Ended December 31, 2014 and December 31, 2013

(Expressed in Canadian dollars)

	Three months ended, December 31		Six months ended, December 31	
	2014 \$	2013 \$	2014 \$	2013 \$
Revenue	\$ 596,466	\$ 9,912	\$ 665,937	\$ 23,767
Expenses				
Cost of sales	270,971	14,677	287,373	25,114
Research and development (Note 16)	384,696	224,467	751,780	487,409
General and administrative (Note 16)	504,012	262,889	733,302	467,584
Marketing and promotion	150,594	125,106	278,650	215,422
Stock based compensation	8,661	53,326	22,177	69,602
Foreign exchange	(7,142)	-	(20,068)	(2,924)
	1,311,792	680,465	2,053,214	1,262,207
Loss from operations	(715,326)	(670,553)	(1,387,277)	(1,238,440)
Other Income (expenses)				
Gain(loss) on settlement of debt	-	(25,000)	-	(25,000)
Interest income	-	43	-	43
Net Loss and Comprehensive Loss for the Period	\$ (715,326)	\$ (695,510)	\$ (1,387,277)	\$ (1,263,397)
Basic and diluted loss per common share	\$ (0.002)	\$ (0.002)	\$ (0.004)	\$ (0.004)
Weighted average number of common shares outstanding	325,584,196	259,031,259	321,876,724	254,121,613

Star Navigation Systems Group Ltd.
Unaudited Condensed Interim Consolidated Statements of Changes in Equity (Deficiency)
Periods Ended December 31, 2014 and December 31, 2013
(Expressed in Canadian dollars)

	Number of common shares	Number of Series I preferred shares	Share capital	Contributed surplus	Deficit	Total
Balance at June 30, 2013	249,211,966	615,000	\$28,327,618	\$13,210,102	\$(41,683,117)	\$(145,397)
Issued for cash on private placement	11,250,000	-	900,000	-	-	900,000
Issued as finders' fees on private placement	1,125,000	-	90,000	-	-	90,000
Value allocated to warrants as part of private placement	-	-	(137,750)	137,750	-	-
Share issuance costs	-	-	(96,441)	-	-	(96,441)
Stock-based compensation	-	-	-	69,602	-	69,602
Loss for the period	-	-	-	-	(1,263,397)	(1,263,397)
Balance at December 31, 2013	261,586,966	615,000	\$29,083,427	\$13,417,454	\$(42,946,514)	\$(445,633)
Balance at June 30, 2014	317,692,892	615,000	\$31,700,633	\$14,437,659	\$(45,695,778)	\$442,514
Issued for cash on private placement	15,000,000	-	900,000	-	-	900,000
Issued as finders' fees on private placement	1,500,000	-	90,000	-	-	90,000
Value allocated to warrants as part of private placement	-	-	(91,892)	91,892	-	-
Stock Options exercised	275,000	-	5,250	-	-	5,250
Share issuance costs	-	-	(95,932)	-	-	(95,932)
Stock-based compensation	-	-	-	22,177	-	22,177
Loss for the period	-	-	-	-	(1,387,277)	(1,387,277)
Balance at December 31, 2014	334,467,892	615,000	\$32,508,059	\$14,551,728	\$(47,083,055)	\$(23,268)

Star Navigation Systems Group Ltd.
Unaudited Condensed Interim Consolidated Statements of Cash Flows
Periods Ended December 31, 2014 and December 31, 2013
(Expressed in Canadian dollars)

	Three months ended, December 31		Six months ended, December 31	
	2014	2013	2014	2013
	\$	\$	\$	\$
Cash provided by (used in)				
Operations				
Net loss	\$ (715,326)	\$ (695,510)	\$ (1,387,277)	\$ (1,263,397)
Items not affecting cash				
Amortization	109,761	63,557	222,971	127,114
Stock-based compensation	8,661	53,326	22,177	69,602
	(596,904)	(578,627)	(1,142,129)	(1,066,681)
Net changes in non-cash working capital				
Accounts receivable	(199,103)	(25,917)	(181,386)	(28,776)
Inventory	129,406	-	38,916	-
Prepaid expenses and sundry receivables	(144,764)	5,037	(131,510)	(15,547)
Accounts payable and accrued liabilities	335,783	(89,713)	361,084	(30,205)
Deferred revenue	(26,743)	-	(26,743)	-
Due to related parties	130,440	190,027	292,701	205,207
	(371,891)	(499,193)	(789,067)	(936,002)
Financing				
Repayment of finance lease obligation	(15,094)	(9,040)	(45,482)	(17,951)
Deposit on share subscription	(272,400)	-	-	-
Issuance of capital stock net of share issuance costs	899,318	893,559	899,318	893,559
	611,824	884,519	853,836	875,608
Net change in cash and cash equivalents	239,933	385,326	64,769	(60,394)
Cash and cash equivalents, beginning of period	(40,244)	(40,117)	134,940	405,603
Cash and cash equivalents, end of period	\$ 199,709	\$ 345,209	\$ 199,709	\$ 345,209
Supplemental Disclosure				
Interest paid	\$ 38,229	\$ 12,423	\$ 62,173	\$ 26,005
Issuance of common share units for finder's fees (Note 9)	90,000	90,000	90,000	90,000

Star Navigation Systems Group Ltd.
Notes to Unaudited Condensed Interim Consolidated Financial Statements
December 31, 2014
(Expressed in Canadian dollars)

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 supplemental type certificate (STC) to the Company for use of the system on a Boeing 737-800.

These unaudited condensed interim consolidated financial statements have been prepared on a going concern basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company incurred a net loss of \$1,387,277 for the six month period ended December 31, 2014 (2013 – \$1,263,397), has an accumulated deficit of \$47,083,055 (2013 - \$45,695,778) and has negative working capital of \$1,160,943 (2013 – \$881,760). 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's registered office is located at 203-2970 Lakeshore Blvd W., Toronto, Ontario M8V 1J7.

2. BASIS OF PRESENTATION

(a) Statement of Compliance

These unaudited condensed interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting and are consistent with the accounting policies disclosed in the annual audited consolidated financial statements for the year ended June 30, 2014. The unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on March 2, 2015.

(b) Basis of Measurement

The unaudited condensed interim 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 unaudited condensed interim consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency.

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

These unaudited condensed interim 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.

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.

(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 of disposal, the asset is written down to its recoverable amount.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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 Company's standard price list. If elements cannot be sold separately, revenue recognition is deferred until all elements have been delivered.

Foreign Exchange

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Loss Per Share

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

Stock-Based Compensation and Other Stock-Based Payments

The Company applies a fair value based method of accounting to all stock-based payments. Accordingly, stock-based payments for employees are measured at the fair value of the equity instruments issued and stock-based payments for non-employees are measured at the fair value of the 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 share capital are netted against the proceeds received.

Accounting Estimates and Judgements

The preparation of unaudited condensed interim 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 development and other assets, stock-based compensation, warrants, and deferred income taxes. The judgments notably relate to the determination of whether the Luxell asset acquisition represents an asset purchase or a business combination and the resultant purchase price allocation, provisions and contingencies, assessment of going concern uncertainties, and the application of the deferral criteria.

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, 2015 or later periods. Many are not applicable or do not have a significant impact to the Company. The following have not yet been adopted and are being evaluated to determine the resultant impact on the Company.

Financial Instruments - IFRS 9

Financial Instruments – IFRS 9 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, 2018.

Revenue from Contracts with Customers - IFRS 15

On May 28, 2014 the IASB issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 will replace IAS 18, Revenue, among other standards. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. The new standard is effective for fiscal years ending on or after December 31, 2017, and is available for early adoption. The Company has not yet assessed the impact of adoption of IFRS 15, and does not intend to early adopt IFRS 15 in its consolidated financial statements.

The Company has not early adopted this standard amendment, however the Company is currently assessing what impact the application of this standard amendment will have on the consolidated financial statements of the company.

Property, Plant and Equipment – IAS 16 and Intangible Assets IAS 38

On May 12, 2014, the IASB amended IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets to clarify that a revenue-based approach to calculate depreciation and amortization generally is not appropriate as it does not reflect the consumption of the economic benefits embodied in the related asset. These amendments must be applied prospectively for annual periods beginning on or after January 1, 2016. The amendments to IAS 16 and IAS 38 are not expected to have a significant impact on our financial statements.

Star Navigation Systems Group Ltd.
Notes to Unaudited Condensed Interim Consolidated Financial Statements
December 31, 2014
(Expressed in Canadian dollars)

5. PROPERTY AND EQUIPMENT

	Leasehold Improvement	Furniture and Equipment	Computer Equipment and Software	Computer Equipment under Finance Lease	Vehicles	Total
Cost						
Balance at June 30, 2014	\$84,626	\$275,630	\$151,422	\$318,795	\$6,690	\$837,163
Additions	-	-	-	-	-	-
Balance at Dec 31, 2014	\$84,626	\$275,630	\$151,422	\$318,795	\$6,690	\$837,163
Accumulated amortization						
Balance at June 30, 2014	\$79,613	\$93,946	\$141,865	\$146,422	\$5,923	\$467,769
Amortization for period	5,013	25,878	2,390	43,093	115	76,489
Balance at Dec 31, 2014	\$84,626	\$119,824	\$144,255	\$189,515	\$6,038	\$544,258
Carrying Amounts						
As at June 30, 2014	\$5,013	\$181,684	\$9,557	\$172,373	\$767	\$369,394
As at Dec 31, 2014	\$Nil	\$155,806	\$7,167	\$129,280	\$652	\$292,905

6. DEVELOPMENT AND OTHER ASSETS

	Licenses	Patents (Note 7)	STAR-ISMS ® and Peripherals	Total
Cost				
Balance at June 30, 2014	\$136,146	\$908,726	\$566,998	\$1,611,870
Additions	-	-	-	-
Balance at Dec 31, 2014	\$136,146	\$908,726	\$566,998	\$1,611,870
Accumulated Amortization				
Balance at June 30, 2014	\$131,284	\$32,455	\$404,853	\$568,592
Amortization for period	500	64,908	81,074	146,482
Balance at Dec 31, 2014	\$131,784	\$97,363	\$485,927	\$715,074
Carrying Amounts				
As at June 30, 2014	\$4,862	\$876,271	\$162,145	\$1,043,278
As at Dec 31, 2014	\$4,362	\$811,361	\$81,071	\$896,796

Star Navigation Systems Group Ltd.
Notes to Unaudited Condensed Interim Consolidated Financial Statements
December 31, 2014
(Expressed in Canadian dollars)

6. DEVELOPMENT AND OTHER 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 18). The Company owns the exclusive, worldwide license for the lifetime of the patents.

7. PURCHASE OF ASSETS

On April 1, 2014, the Company completed the acquisition of certain assets of Les technologies LUXELL Limited ("LUXELL"). The consideration for this acquisition was twenty-five (25,000,000) million common shares of the Company (the "Shares") at a fair value of \$1,250,000, as well as \$40,000 in assumed debt. The transaction was measured based on the fair value of shares issued and debt assumed, in the absence of a reliable measurement of the fair value of the assets acquired. The Shares were subject to a four (4) month hold period. In addition, the Shares are also subject to the terms and conditions of an Escrow Agreement which governs the ability of the vendor to sell the Shares prior to December, 2015.

The purchase price allocation for the LUXELL asset purchase is as follows:

	June 30, 2014 (Audited)
Inventory	\$ 174,824
Equipment and furniture	206,450
Intangible assets - Patents	908,726
Total identifiable net assets	\$ 1,290,000

8. SUNDRY RECEIVABLE

Sundry receivable reflects an amount due from an employee of the Company with respect to units purchased during the private placement that took place in April 2014 (Note 12 – June 30, 2014 Audited Financial Statements). This receivable of \$50,142 (2013 - \$Nil) is unsecured, non-interest bearing and has no fixed terms of repayment.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Dec 31, 2014	June 30, 2014 (Audited)
Trade payables	\$ 372,959	\$ 83,803
Accrued liabilities and other	236,446	164,518
	\$609,405	\$248,321

Star Navigation Systems Group Ltd.
Notes to Unaudited Condensed Interim Consolidated Financial Statements
December 31, 2014
(Expressed in Canadian dollars)

10. FINANCE LEASE OBLIGATION

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.

During the year ended June 30, 2014, 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 \$156,577. The lease bears interest at 22.76%. The term of the lease is for 27 monthly payments, expiring on August 1, 2016.

The following is a schedule of the future minimum lease payments under these finance leases together with the balance of the obligation under the finance lease:

	Dec 31, 2014
2015	\$ 55,676
2016	91,728
2017	10,492
Total minimum payments	157,896
Less: interest at the implicit rate	(22,737)
Balance of the obligation	135,159
Less: Current portion	(83,133)
	\$ 52,026

11. 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.

Star Navigation Systems Group Ltd.
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12. 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 October 18, 2013, the Company completed a non-brokered private placement of 11,250,000 units of the Company at a price per Unit of \$0.08 (the "Units"), for gross proceeds totaling \$900,000. 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 fees on portions of the placement in the amount of \$90,000 were paid in Units. As the value of services received could not be reliably measured, the services have been measured at the fair value of finders' warrants issued using the Black-Scholes model. 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 November 17, 2014, the Company completed non-brokered private placement of 15,000,000 units of the Company at a price per Unit of \$0.06 (the "Units"), for gross proceeds totaling \$900,000. Each Unit consisted 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") for a price of \$0.15 per Warrant Share for a term of 24 months from the closing date. Finder's fees on the placement in the amount of \$90,000 were paid in Units. As the value of services received could not be reliably measured, the services have been measured at the fair value of finders' warrants issued using the Black-Scholes model. 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.

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13. CONTRIBUTED SURPLUS, STOCK-BASED COMPENSATION AND WARRANTS

Stock-Based Compensation

The Company has a Stock Option Plan (the "Plan") for employees, officers, directors and consultants performing special technical or other services of the Company ("Optionees"). During 2010, the Company amended the Plan whereby the number of common shares to be issued under the Plan is not to exceed 30,000,000 common shares. The designation of Optionees, amount and vesting provisions of awards under the Plan are determined by the Board of Directors.

Stock Option Transactions	Number	Exercise Price	Weighted-Average Exercise Price
Balance at June 30, 2014	14,797,900		\$0.14
Options exercised	275,000	\$0.05-\$0.07	\$0.06
Balance at Dec 31, 2014	14,522,900		\$0.14
Exercisable at Dec 31, 2014	14,220,817		\$0.06

As at December 31, 2014 the Company had stock options issued to directors, officers, employees and key consultants of the Company outstanding as follows:

Date of Grant	Options Granted	Options Exercisable	Exercise Price	Expiry Date
March 31, 2008	300,000	300,000	\$0.07	March 30, 2016
January 8, 2010	20,000	20,000	\$0.07	January 1, 2016
March 30, 2010	1,425,000	1,425,000	\$0.15-\$0.32	March 31, 2015 - March 31, 2016
June 3, 2010	450,000	450,000	\$0.15-\$0.22	March 31, 2015 - March 31, 2016
February 4, 2011	500,000	500,000	\$0.21	January 1, 2015
February 10, 2011	100,000	100,000	\$0.07	January 1, 2016
May 31, 2011	50,000	50,000	\$0.15-\$0.21	May 31, 2018
February 17, 2012	150,000	150,000	\$0.12-\$0.20	February 18, 2015
June 6, 2012	1,730,000	1,730,000	\$0.07-\$0.20	August 22, 2016 - February 17, 2018
August 31, 2012	120,000	120,000	\$0.20	August 31, 2016
January 15, 2013	1,382,900	1,382,900	\$0.15	January 15, 2018
February 15, 2013	3,670,000	3,670,000	\$0.07-\$0.15	February 14, 2018
October 21, 2013	3,125,000	3,125,000	\$0.10-\$0.12	October 20, 2016
November 29, 2013	200,000	200,000	\$0.05	December 1, 2015
January 30, 2014	75,000	31,250	\$0.07	December 15, 2018
March 3, 2014	900,000	450,000	\$0.07-\$0.15	March 30, 2017
April 4, 2014	500,000	500,000	\$0.07-\$0.12	April 4, 2016
May 10, 2014	100,000	16,667	\$0.07	May 10, 2017
	14,522,900	14,220,817		

The weighted average remaining contractual life of the outstanding options is 2.45 years.

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

Warrants

	Number	Weighted-Average Exercise Price	Expiry Date
Balance at June 30, 2014	141,793,716	\$0.16	
Issued	16,500,000	\$0.15	November 17, 2016
Expired	-	-	
Balance at Dec 31, 2014	158,293,716	\$0.16	

19,948,666 common share purchase warrants issued pursuant to a private placement accepted for filing January 12, 2010 (the "January 12, 2010 Warrants"), set to expire on January 12, 2014, will now expire on January 12, 2015. Each January 12, 2010 Warrant will continue to entitle the holder thereof to purchase one common share of the Company at an exercise price of \$0.30.

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

	Dec 31, 2014	June 30, 2014 (Audited)
Expected dividend yield	Nil	Nil
Risk free interest rate	1.02%	1.04%
Expected Volatility	68%	70%
Expected Life	2.0 years	1.92 years
Share price	\$0.04	\$ 0.07

Expected volatility is based on historical data.

14. 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 period ended December 31, 2014.

15. 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 \$600 impact on foreign exchange gain.

As at December 31, 2014 the Company held \$205,720 (June 30, 2014 - \$59,822) of cash and cash equivalents in US dollars vs. Cdn dollar cash of (\$6,011).

(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.

(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 10 and 17) approximate their fair values due to the short-term maturities of these instruments. The long-term portion of 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 19, the Company earns a significant amount of revenue from one customer. As at December 31, 2014, approximately \$64,860 (June 30, 2014 - \$31,642) of the Company's receivables were past due the average credit period of 90 days.

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15. FINANCIAL RISK MANAGEMENT (Cont'd)

(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 December 31, 2014, the Company has current liabilities of \$2,419,615 due within 12 months and has a cash of \$199,709 to meet its current obligations. As at December 31, 2014 the Company has working capital deficiency of \$1,160,943 and accordingly, the Company is subject to liquidity risk. Management will continue to raise capital to develop, market and promote its STAR-ISMS® technology and to maintain its operations.

16. COMMITMENTS AND CONTINGENCIES

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

Item	2015	2016	2017	2018	2019	Total
Premises	228,000	228,000	228,000	228,000	228,000	1,140,000
Equipment	130,608	101,172	16,162	-	-	247,942

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

17. RELATED PARTY TRANSACTIONS

The Company has accrued and carries a significant balance on its consolidated financial statements of amounts due to related parties. The amounts represent compensation accrued with respect to salary compensation for its officers, monthly compensation accrued for its directors and committee chairpersons that have accumulated over the past several years.

The Company'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. Such amounts are accrued.

Committee Chairpersons are selected from amongst the Directors of the Company to lead the Audit, Compensation, Corporate Governance and Strategic Planning and Human Resources 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 consolidated financial statements of the Company. The terms for repayment of the amounts owing to the various Board and Committee members are restricted. These amounts can only be settled when individuals wish to exercise options that have been granted to them by the Company or to participate in a private placement being offered by the Company. Such amounts are non-interest bearing and unsecured.

The Company has a license agreement in place with its CEO and Chairman of the Board (See Note 16(b)) regarding royalties to be paid upon future sales of the Company's ISMS products. At this date no royalties have been recorded.

The following balances are due to related parties as of December 31, 2014:

Due to Directors - \$25,000 (2013 - \$84,000), Due to Committee Chairpersons - \$30,000 (2013 - \$24,000), and Due to Chief Executive Officer and Chairman of the Board of Directors - \$1,438,781 (2013 - \$1,093,080) plus \$16,150 (2013 - \$4,737) in credit card debt guaranteed by the CEO and Chairman of the Board.

The amount due to the Chief Executive Officer and Chairman of the Board of Directors 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 that time.

Included in the unaudited condensed interim consolidated statement of comprehensive loss for the period ended December 31, 2014, in general and administrative expenses is \$55,599 (2013 - \$75,230) in fees paid and accrued to directors and officers of the Company. An amount of \$135,000 in respect of salary (2013 - \$Nil) was accrued to the Company CEO. As well, a total of \$32,800 (2013 - \$25,061) was accrued to the Chief Executive Officer regarding interest on the outstanding loan owed to him. The rate of interest paid was Bank of Canada prime + 2%.

Also included in the general and administrative total of \$55,599 (2013 - \$75,230) were Board of Directors fees of \$36,000 (2013 - \$46,323) which were accrued. Chairperson fees of \$19,599 (2013 - \$28,907) were accrued and paid. Payments to the Chief Operating Officer of \$Nil (2013- \$10,721) were paid. Included in professional fees of \$42,000 (2013 - \$390,000), were payments to the Chief Financial Officer of the Company.

The amounts owing to related parties are unsecured, bear interest at prime + 2.0% and have no fixed terms for repayment.

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18. SIGNIFICANT CUSTOMER

During the period ended December 31, 2014, 92% (2013 - 57%) of the revenue was generated from one customer.

19. EXPENSE DISCLOSURES

Employee benefits totaling \$680,558 (2013 - \$402,118) are included in research and development in the amount of \$353,106 (2013 - \$267,995), general and administrative in the amount of \$247,775 (2013 - \$64,521), marketing and sales \$57,500 (2013 - \$Nil), stock based compensation in the amount of \$22,177 (2013 - \$69,602) respectively.

Amortization of \$222,971 (2013 - \$127,114) is included in research and development.