

Star Navigation Systems Group Ltd.

Condensed Interim Consolidated Financial Statements

(Unaudited)

**For the three and nine month periods ended March 31, 2015 and March
31, 2014**

(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
May 26, 2015

Star Navigation Systems Group Ltd.

Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

Periods Ended March 31, 2015 and March 31, 2014

(Expressed in Canadian dollars)

	Three months ended, March 31		Nine months ended, March 31	
	2015 \$	2014 \$	2015 \$	2014 \$
Revenue	\$ 46,758	\$ 8,069	\$ 712,695	\$ 31,836
Expenses				
Cost of sales	26,680	30,272	314,052	55,386
Research and development (Note 19)	291,193	295,135	1,042,973	782,544
General and administrative (Note 19)	426,314	262,808	1,159,615	730,392
Marketing and promotion (Note 19)	94,678	108,803	373,328	324,225
Stock based compensation	1,475	50,369	23,653	119,971
Foreign exchange loss/(gain)	(11,060)	7,097	(31,127)	4,173
	829,280	754,484	2,882,494	2,016,691
Loss from operations	(782,522)	(746,415)	(2,169,799)	(1,984,855)
Other Income (expenses)				
Gain(loss) on settlement of debt	-	40,859	-	15,859
Interest income	-	60	-	103
Net Loss and Comprehensive Loss for the Period	\$ (782,522)	\$ (705,496)	\$ (2,169,799)	\$ (1,968,893)
Basic and diluted loss per common share	\$ (0.002)	\$ (0.002)	\$ (0.006)	\$ (0.007)
Weighted average number of common shares outstanding	325,584,196	259,527,244	326,012,509	256,664,997

Star Navigation Systems Group Ltd.
Unaudited Condensed Interim Consolidated Statements of Changes in Equity (Deficiency)
Periods Ended March 31, 2015 and March 31, 2014
(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	-	-
Issued on purchase of Luxell acquisition (Note 7)	25,000,000	-	1,500,000	-	-	1,500,000
Stock Options exercised	70,000	-	10,500	-	-	10,500
Share issuance costs	-	-	(96,441)	-	-	(96,441)
Warrant Modification (Note 12)	-	-	-	61,890	(61,890)	-
Stock-based compensation	-	-	-	119,971	-	119,971
Loss for the period	-	-	-	-	(1,968,893)	(1,968,893)
Balance at March 31, 2014	286,656,966	615,000	\$30,593,927	\$13,529,713	\$(43,713,900)	\$409,740
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	-	-	-	23,653	-	23,653
Loss for the period	-	-	-	-	(2,169,799)	(2,169,799)
Balance at March 31, 2015	334,467,892	615,000	\$32,508,059	\$14,553,204	\$(47,865,577)	\$(804,314)

Star Navigation Systems Group Ltd.
Unaudited Condensed Interim Consolidated Statements of Cash Flows
Periods Ended March 31, 2015 and March 31, 2014
(Expressed in Canadian dollars)

	Nine months ended, March 31	
	2015	2014
	\$	\$
Cash provided by (used in)		
Operations		
Net loss	\$ (2,169,799)	\$ (1,263,397)
Items not affecting cash		
Amortization	331,950	127,114
Stock-based compensation	23,653	69,602
	(1,814,196)	(1,066,681)
Net changes in non-cash working capital		
Accounts receivable	(16,463)	(28,776)
Inventory	27,749	-
Prepaid expenses and sundry receivables	(285,210)	(15,547)
Accounts payable and accrued liabilities	494,787	(30,205)
Deferred revenue	(26,743)	-
Due to related parties	398,382	205,207
	(1,221,694)	(936,002)
Investing		
Asset additions	-	(127,500)
Sale of Property & equipment	-	21,942
Intangible asset additions	-	(1,275,000)
	-	(1,380,558)
Financing		
Repayment of finance lease obligation	(72,073)	(17,951)
Deposit on share subscription	322,500	-
Issuance of capital stock net of share issuance costs	899,318	893,559
	1,149,745	875,608
Net change in cash and cash equivalents	(71,949)	(60,394)
Cash and cash equivalents, beginning of period	134,940	405,603
Cash and cash equivalents, end of period	\$ 62,991	\$ 345,209
Supplemental Disclosure		
Interest paid	\$ 76,146	\$ 38,977
Issuance of common share units for finder's fees (Note 12)	90,000	90,000

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 \$2,169,799 for the nine month period ended March 31, 2015 (2014 – \$1,984,855), has an accumulated deficit of \$47,865,577 (2014 - \$45,695,778) and has negative working capital of \$1,643,973 (2014 – \$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 May 22, 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

The unaudited condensed interim financial statements are prepared in accordance with IFRS and follow the same accounting policies and methods of their application as the most recent audited financial statements for the year ended June 30, 2014. These unaudited condensed interim financial statements should be read in conjunction with those audited financial statements.

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.

Star Navigation Systems Group Ltd.
Notes to Unaudited Condensed Interim Consolidated Financial Statements
March 31, 2015
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4. RECENT ACCOUNTING PRONOUNCEMENTS ISSUED AND NOT YET APPLIED

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.

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 Mar 31, 2015	\$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	38,817	3,584	64,640	173	112,227
Balance at Mar 31, 2015	\$84,626	\$132,763	\$145,449	\$211,062	\$6,096	\$579,996
Carrying Amounts						
As at June 30, 2014	\$5,013	\$181,684	\$9,557	\$172,373	\$767	\$369,394
As at Mar 31, 2015	\$Nil	\$142,867	\$5,973	\$107,733	\$594	\$257,167

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6. DEVELOPMENT AND OTHER ASSETS

Cost	Licenses	Patents (Note 7)	STAR-ISMS ® and Peripherals	Total
Balance at June 30, 2014	\$136,146	\$908,726	\$ 566,998	\$1,611,870
Additions	-	-	-	-
Balance at Mar 31, 2015	\$ 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	750	97,364	121,609	219,723
Balance at Mar 31, 2015	\$ 132,034	\$ 129,819	\$ 526,462	\$ 788,315
Carrying Amounts				
As at June 30, 2014	\$ 4,862	\$ 876,271	\$ 162,145	\$ 1,043,278
As at Mar 31, 2015	\$ 4,112	\$ 778,907	\$ 40,536	\$ 823,555

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 17). 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

Star Navigation Systems Group Ltd.
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8. PREPAID EXPENSE AND 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. Prepaid expenses include the cost of an uncompleted Graphical User Interface the Company is developing for the ISMS ground station.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Mar 31, 2015	June 30, 2014 (Audited)
Trade payables	\$ 453,452	\$ 83,803
Accrued liabilities and other	289,656	164,518
	\$743,108	\$248,321

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, this lease expired 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:

	Mar 31, 2015
2015	\$ 22,932
2016	91,728
2017	10,491
Total minimum payments	125,151
Less: interest at the implicit rate	(16,583)
Balance of the obligation	108,568
Less: Current portion	(63,505)
	\$ 45,063

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.

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 issued	350,000	\$0.07-\$0.10	\$0.10
Options forfeited	(3,145,000)	\$0.07-\$0.15	\$0.12
Options expired	(1,825,000)	\$0.15-\$0.21	\$0.19
Options exercised	(275,000)	\$0.05-\$0.07	\$0.08
Balance at Mar 31, 2015	9,902,900		\$0.09
Exercisable at Mar 31, 2015	9,609,150		\$0.14

As at March 31, 2015 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	70,000	70,000	\$0.07	January 1, 2016
March 30, 2010	600,000	600,000	\$0.07-\$0.32	March 31, 2016
June 3, 2010	50,000	50,000	\$0.22	March 31, 2016
February 10, 2011	100,000	100,000	\$0.07	January 1, 2016
May 31, 2011	50,000	50,000	\$0.07	May 31, 2018
June 6, 2012	1,730,000	1,730,000	\$0.07-\$0.20	April 15, 2015-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 14, 2018
February 15, 2013	2,400,000	2,400,000	\$0.07-\$0.15	February 14, 2018
October 21, 2013	1,775,000	1,775,000	\$0.10-\$0.12	October 20, 2016
January 30, 2014	25,000	14,583	\$0.07	December 15, 2018
March 3, 2014	900,000	900,000	\$0.06-\$0.15	March 30, 2017
May 10, 2014	100,000	41,667	\$0.07	May 10, 2017
Nov 26, 2014	300,000	75,000	\$0.10	Nov 26, 2016
	9,902,900	9,609,150		

The weighted average remaining contractual life of the outstanding options is 1.96 years.

Star Navigation Systems Group Ltd.
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13. CONTRIBUTED SURPLUS, STOCK-BASED COMPENSATION AND WARRANTS (Cont'd)

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

	Mar 31, 2015	Mar 31, 2014
Expected dividend yield	Nil	Nil
Risk free interest rate	1.02%	1.73%
Expected Volatility	67%	66%
Expected Life	2.0 years	3.0 years
Share price	\$0.04	\$ 0.08

Expected volatility is based on historical data.

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	(19,881,666)	(\$0.30)	
Balance at Mar 31, 2015	138,412,050	\$0.14	

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

	Mar 31, 2015	Mar 31, 2014
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 March 31, 2015.

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 March 31, 2015 the Company held \$1,024 (June 30, 2014 - \$59,822) of cash and cash equivalents in US dollars vs. Cdn dollar cash of \$61,967.

(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.

15. 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 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 18, the Company earns a significant amount of revenue from one customer. As at March 31, 2015, approximately \$64,860 (June 30, 2014 - \$31,642) 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 March 31, 2015, the Company has current liabilities of \$2,961,871 due within 12 months and has a cash of \$62,991 to meet its current obligations. As at March 31, 2015 the Company has working capital deficiency of \$1,839,973 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 the Company and 2283188 Ontario Limited (the "Licensor"), a company controlled by the CEO of the Company, which requires royalties to be payable by the Company to the Licensor effective upon the termination of the CEO.

16. COMMITMENTS AND CONTINGENCIES (Cont'd)

- (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 corporate governance, reviewing strategic plans, budgeting, material contracts or joint ventures and any other material information deemed 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 and becomes effective the termination of the CEO.

The following balances are due to related parties as of March 31, 2015:

Due to Directors - \$51,000 (2014 - \$16,000), Due to Committee Chairpersons - \$41,000 (2014 - \$16,000), and Due to Chief Executive Officer and Chairman of the Board of Directors - \$1,507,462 (2014 - \$1,017,392). The Company also has \$19,197 (2014 - \$2,425) in credit card debt guaranteed by the CEO and Chairman of the Board in accounts payables and accrued liabilities.

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 March 31, 2015, in general and administrative expenses is \$425,379 (2013 - \$195,110) in fees paid and accrued to directors and officers of the Company. An amount of \$211,500 in respect of salary (2014 - \$9,000) was accrued to the Company CEO. As well, a total of \$50,981 (2014 - \$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%.

17. RELATED PARTY TRANSACTIONS (Cont'd)

Also included in the general and administrative total of \$425,379 (2014 - \$195,110) were Board of Directors fees of \$62,000 (2014 - \$70,323) which were accrued. Chairperson fees of \$19,599 (2014 - \$43,106) were accrued and paid. Payments to the Chief Operating Officer of \$Nil (2014 - \$10,721) were paid. Included in professional fees of \$63,000 (2014 - \$60,000), 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.

18. SIGNIFICANT CUSTOMER

During the period ended March 31, 2015, 92% (2013 - 57%) of the revenue was generated from one customer.

19. EXPENSE DISCLOSURES

Employee benefits totaling \$1,227,795 (2014 - \$738,005) are included in research and development in the amount of \$746,877 (2014 - \$532,625), general and administrative in the amount of \$371,015 (2014 - \$65,492), marketing and sales \$86,250 (2014 - \$19,917), stock based compensation in the amount of \$23,653 (2014 - \$119,971) respectively.

Amortization of \$331,950 (2014 - \$189,104) is included in research and development.

20. SUBSEQUENT EVENTS

On May 15, 2015, the Company announced that it has closed its previously announced non-brokered private placement, having issued 16,140,000 units of the Company (the "Units") at a price per Unit of \$0.05 for gross proceeds of \$807,000. Each Unit consists of one common share in the capital of the Company and one warrant. One-half (1/2) of the number of warrants acquired entitle the holder to purchase one (1) additional common share of the Corporation at six (\$0.06) cents per warrant exercised and the remaining one-half (1/2) of the warrants entitle the holder to purchase one additional common share of the Corporation at twelve (\$0.12) cents per warrant exercised. The warrants are exercisable during the two (2) year period from the date of issue.

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. Due to the fact that the private placement was completed in two tranches, there are two hold period expiry dates and two warrant expiry dates associated with the shares and warrants issued. The first tranche four month hold period on 10,000,000 common shares expires August 30, 2015; the second tranche four month hold on 6,140,000 common shares expires September 20, 2015. Any common shares issued as the result of conversion of warrants will also be subject to the same hold periods. In addition, 10,000,000 warrants will expire on April 29, 2017, while 6,140,000 warrants will expire on May 20, 2017. The net proceeds of the placement will be used for research and development, marketing and corporate overhead. Star has agreed to pay finder's fees in the amount 1,450,000 Units. The price was reserved with the TSX-V.