Star Navigation Systems Group Ltd.

Consolidated Financial Statements

For the years ended June 30, 2015 and 2014

(Expressed in Canadian dollars)

Collins Barrow

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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, 2015 and June 30, 2014 and the consolidated statements of loss and comprehensive loss, changes in equity (deficiency) and cash flows for the years ended June 30, 2015 and June 30, 2014 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated 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.

Auditors' 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 audit 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, 2015 and June 30, 2014 and its financial performance and its cash flows for the years ended June 30, 2015 and June 30, 2014 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that Star Navigation Systems Group Ltd. and its subsidiaries has material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Collins Barrow Toronto LLP

Licensed Public Accountants
Chartered Accountants
October 28, 2015
Toronto, Ontario

Star Navigation Systems Group Ltd.
Consolidated Statements of Financial Position
As at June 30, 2015 and June 30, 2014
(Expressed in Canadian dollars)

	2015	2014
Assets		
Current		
Cash and cash equivalents	**$ -**	$ 134,940
Accounts receivable	**66,259**	60,144
Inventory	**332,621**	440,164
Prepaid expenses and sundry receivables (Note 8)	**262,836**	284,675
	661,716	919,923
Property and equipment (Note 5)	**220,892**	369,394
Intangible assets (Note 6 and 7)	**1,032,390**	1,043,278
	$ 1,914,998	$ 2,332,595
Liabilities		
Current		
Bank indebtedness	**$ 43,290**	$ -
Accounts payable and accrued liabilities (Note 9)	**677,248**	248,321
Current portion of finance lease obligation (Note 10)	**80,558**	92,243
Other payables (Note 11)	**196,000**	196,000
Subscriptions proceeds received in advance (Note 18)	**80,000**	-
Current portion of due to related parties (Note 19)	**302,976**	1,201,080
Deferred revenue	**26,107**	64,039
	1,406,179	1,801,683
Long Term		
Due to related parties (Note 19)	**1,325,369**	-
Finance lease obligation (Note 10)	**10,271**	88,398
	2,741,819	1,890,081
Shareholders' Equity (Deficiency)		
Share capital (Note 12)	**33,138,534**	31,700,633
Contributed surplus (Note 13)	**14,723,831**	14,437,659
Deficit	**(48,689,186)**	(45,695,778)
	(826,821)	442,514
	$ 1,914,998	$ 2,332,595

Nature of Operations and Going Concern (Note 1)

Commitments and Contingencies (Note 17)

Subsequent Events (Note 23)

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

Star Navigation Systems Group Ltd.
Consolidated Statements of Loss and Comprehensive Loss
Years Ended June 30, 2015 and June 30, 2014
(Expressed in Canadian dollars)

	2015	2014
Revenue (Note 20)	$ 748,428	$ 53,731
Expenses		
Cost of sales	305,298	53,725
Research and development (Note 21)	1,428,563	1,312,251
General and administrative (Note 21)	1,453,816	1,329,889
Marketing and promotion (Note 21)	459,441	569,354
Stock based compensation (Note 13)	23,653	173,231
Foreign exchange	(29,860)	2,963
	3,640,911	3,441,413
Loss from operations	(2,892,483)	(3,387,682)
Other Income (expenses)		
Interest income	-	117
Interest expense	(100,388)	(55,291)
Loss on disposal of assets	(537)	-
Gain on settlement of debt	-	15,859
	(100,925)	(39,315)
Net Loss and Comprehensive Loss for the year	$(2,993,408)	$(3,426,997)
Basic and diluted loss per common share	$(0.01)	$(0.01)
Weighted average number of common shares outstanding	330,337,385	270,552,104

See accompanying notes

Star Navigation Systems Group Ltd.
Consolidated Statements of Changes in Equity (Deficiency)
Years Ended June 30, 2015 and June 30, 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	39,209,933	-	2,577,596	-	-	**2,577,596**
Issued as finders' fees on private placement	3,920,993	-	257,759	-	-	**257,759**
Value allocated to warrants as part of private placement	-	-	(485,344)	485,344	-	**-**
Issued on purchase of assets (Note 7)	25,000,000	-	1,250,000	-	-	**1,250,000**
Stock Options exercised	350,000	-	30,500	-	-	**30,500**
Fair Value of Options exercised	-	-	16,682	(16,682)	-	**-**
Share issuance costs	-	-	(274,178)	-	-	**(274,178)**
Warrant Modification (Note 13)	-	-	-	585,664	(585,664)	**-**
Stock-based compensation	-	-	-	173,231	-	**173,231**
Loss for the period	-	-	-	-	(3,426,997)	**(3,426,997)**
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	31,140,000	-	1,707,000	-	-	**1,707,000**
Issued as finders' fees on private placement	2,950,000	-	162,500	-	-	**162,500**
Value allocated to warrants as part of private placement	-	-	(273,034)	273,034	-	**-**
Stock Options exercised	275,000	-	5,250	-	-	**5,250**
Share issuance costs	-	-	(174,330)	-	-	**(174,330)**
Fair Value of Options exercised			10,515	(10,515)		**-**
Stock-based compensation	-	-	-	23,653	-	**23,653**
Loss for the period	-	-	-	-	(2,993,408)	**(2,993,408)**
Balance at June 30, 2015	**352,057,892**	**615,000**	**$33,138,534**	**$14,723,831**	**$(48,689,186)**	**$(826,821)**

Star Navigation Systems Group Ltd.
Consolidated Statements of Cash Flows
Years Ended June 30, 2015 and June 30, 2014
(Expressed in Canadian dollars)

	2015	2014
Cash provided by (used in)		
Operations		
Net loss	**$(2,993,408)**	$(3,426,997)
Items not affecting cash		
Amortization of property and equipment	**147,965**	130,677
Amortization of intangible assets	**301,714**	231,438
Loss on disposal of assets	**537**	-
Stock-based compensation	**23,653**	173,231
	(2,519,539)	(2,891,651)
Net changes in non-cash working capital		
Accounts receivable	**(6,115)**	(21,763)
Inventory	**107,543**	11,809
Prepaid expenses and sundry receivables	**21,839**	(78,301)
Accounts payable and accrued liabilities	**428,927**	9,616
Deferred revenue	**(37,932)**	54,039
Due to related parties	**427,265**	151,688
	(1,578,012)	(2,764,563)
Investing		
Intangible assets additions	**(290,826)**	(30,000)
Property and equipment additions	**-**	(48,617)
Sale of property and equipment	**-**	21,943
	(290,826)	(56,674)
Financing		
Repayment of finance lease obligation (Note 10)	**(89,812)**	(41,103)
Subscription proceeds received in advance (Note 18)	**80,000**	-
Issuance of share capital net of share issuance costs	**1,700,420**	2,591,677
	1,690,608	2,550,574
Net change in cash	**(178,230)**	(270,663)
Cash, beginning of year	**134,940**	405,603
Cash (bank indebtedness), end of year	**$(43,290)**	$134,940
Supplemental Disclosure		
Interest paid	**$100,388**	$55,291
Issuance of common shares for finder’s fees (Note 12)	**162,500**	257,759
Shares issued to acquire assets	**-**	1,250,000
Assets acquired under finance lease	**-**	202,694

See accompanying notes

1. NATURE OF OPERATIONS AND GOING CONCERN

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). The Company has been granted supplemental type certificates (STC) for use of the systems on a Boeing 737 and Airbus A320.

The Company’s registered office is located at 203-2970 Lakeshore Blvd W., Toronto, Ontario M8V 1J7. The Company is a public company listed on the TSX-Venture exchange trading under the symbol of “SNA”.

These 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 $2,993,408 for the year ended June 30, 2015 (2014 – $3,426,997), has an accumulated deficit of $48,689,186 (2014 - $45,695,778) and has negative working capital of $744,463 (2014 – $881,760). Whether and when the Company can attain profitability and positive cash flow is uncertain. These material uncertainties cast significant doubt about the Company’s ability to continue as a going concern. 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.

2. BASIS OF PRESENTATION

(a) Statement of Compliance

These 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 Standards Interpretations Committee ("IFRSIC"). The consolidated financial statements for the year ended June 30, 2015 were authorized for issue by the Board of Directors on October 26, 2015.

(b) Basis of Measurement

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments 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 and controlled 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. The financial statements of its subsidiaries are included in the consolidated statements from the date that control commences until the date that control ceases. 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.

Business Combinations

Business combinations occurring on or after January 1, 2010 are accounted for using the acquisition method under IFRS 3 *Business Combinations*.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the fair value of the consideration transferred over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The measurement period is the period from the date of acquisition to the date the Company obtains complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum of one year.

Acquisition costs are expensed as incurred, unless they qualify to be treated as debt issue costs, or as cost of issuing equity securities.

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.

Work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The majority of inventory as of yearend is comprised of parts inventory.

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property and Equipment and Amortization

Property and equipment are recorded at cost less accumulated depreciation. Residual values, estimated useful lives and depreciation methods are reviewed at least annually. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized net in comprehensive income.

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	- 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
Equipment	- 30% per annum, declining balance

Intangible Assets

(a) License Rights

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 rights has been made. Ongoing costs represent out-of-pocket costs for various license applications and processing. Costs directly attributable to the license rights 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.

(b) Patents

Costs directly related to the Company's patents have been capitalized and are being amortized on a straight-line basis over their estimated useful life of 7 years.

(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.

(d) GUI System

The GUI system will allow STAR-ISMS® customers to view the airline flights and receive end of flight reports. This product was not 100% complete at June 30, 2015, therefore no amortization was taken in 2015.

(e) STAR-ISMS® and Peripherals

Costs related to the STAR-ISMS® and Peripherals that are capitalized, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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 to intangible assets 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.

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 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.

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.

Revenue from repairs and maintenance of STAR-MMI flat panel displays units are recognized when the unit has been repaired and shipped 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.

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 from the related expenses 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)

Share Capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share purchase options are recognized as a deduction from equity. When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a deduction from total equity.

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.

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

The most significant estimates relate to the determination of the expected life of property and equipment and intangible assets; inventory valuation; valuation of deferred income tax amounts; impairment testing on intangible assets; the calculation of stock-based compensation; and the valuation of options and warrants granted.

The most significant judgments relate to recoverability of capitalized amounts, recognition of deferred tax assets and liabilities, determination of whether the Luxell asset acquisition represents an asset purchase or business combination and the resultant purchase price allocation, provisions and contingencies, assessment of going concern uncertainties, classification of leases as finance versus operating, and the application of the deferral criteria on the GUI system.

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:

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial Instruments (Cont'd)

(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.

(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

All financial liabilities are recognized initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs. Financial liabilities classified as other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Transaction costs associated with other financial liabilities are included in the initial carrying amount of the liabilities.

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial Instruments (Cont'd)

Financial liabilities are classified into one of two categories: (Cont'd)

(b) Other financial liabilities (Cont'd)

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

Financial Instrument	Classification
Cash	FVTPL
Accounts receivable	Loans and receivables
Bank indebtedness	FVTPL
Accounts payable and accrued liabilities	Other liabilities
Due to related parties	Other liabilities
Other payables	Other liabilities
Finance lease obligation	Other liabilities
Subscriptions proceeds received in advance	Other liabilities

The Company had no other comprehensive income or loss transactions during the years ended June 30, 2015 and 2014.

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 bank indebtedness. 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.

June 30, 2015	**Level One**	**Level Two**	**Level Three**
Bank indebtedness	**$ (43,290)**	**$ -**	**$ -**

June 30, 2014	Level One	Level Two	Level Three
Cash	$ 134,940	$ -	$ -

4. RECENT ACCOUNTING PRONOUNCEMENTS ISSUED AND NOT YET APPLIED

Certain pronouncements were issued by the IASB or the IFRSIC 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.

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

Presentation of Financial Statements – IAS 1

IAS 1 Presentation of Financial Statements was amended by the IASB in December 2014. The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures. Effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

Financial Instruments - IFRS 9

Financial Instruments - IFRS 9 was issued by the IASB in July 2014 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. A new hedge accounting model is introduced and represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements. The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions. Effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

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 beginning on or after January 1, 2018, 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.

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 the Company's financial statements.

(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 June 30, 2013	$84,626	$50,951	$69,180	$148,922	$116,101	$6,690	**$476,470**
Disposals	-	(50,951)	-	-	-	-	**(50,951)**
Additions	-	-	206,450	2,500	202,694	-	**411,644**
Balance at June 30, 2014	$84,626	$ -.	$275,630	$151,422	$318,795	$6,690	**$837,163**
Disposals						(6,690)	**(6,690)**
Balance at June 30, 2015	**$84,626**	**$ -.**	**$275,630**	**$151,422**	**$318,795**	**$ -**	**$830,473**
Accumulated amortization							
Balance at June 30, 2013	$62,688	$25,873	$62,993	$133,557	$75,395	$5,594	**$366,100**
Amortization for year	16,925	3,135	30,953	8,308	71,027	329	**130,677**
Disposals	-	(29,008)	-	-	-	-	**(29,008)**
Balance at June 30, 2014	$79,613	$ -	$93,946	$141,865	$146,422	$5,923	**$467,769**
Amortization for the year	5,013	-	51,756	4,779	86,187	230	**$147,965**
Disposals	-	-	-	-	-	(6,153)	**$(6,153)**
Balance at June 30, 2015	**$84,626**	**$ -**	**$145,702**	**$146,644**	**$232,609**	**$ -**	**$609,581**
Carrying Amounts							
As at June 30, 2014	$5,013	$ -	$181,684	$9,557	$172,373	$767	**$369,394**
As at June 30, 2015	**$ -**	**$ -**	**$129,928**	**$4,778**	**$86,186**	**$ -**	**$220,892**

(Expressed in Canadian dollars)

6. INTANGIBLE ASSETS

Cost	License Rights	Patents (Note 7)	Website Costs	GUI System	STAR-ISMS ® and Peripherals	Total
Balance at June 30, 2013	$ 136,146	$ -	$ 25,037	$ -	$ 566,998	$ 728,181
Additions	-	908,726	-	-	-	908,726
Balance at June 30, 2014	$136,146	$ 908,726	$ 25,037	$ -	$ 566,998	$ 1,636,907
Additions	-	-	-	238,326	52,500	290,826
Balance at June 30, 2015	$ 136,146	$ 908,726	$ 25,037	$ 238,326	$ 619,498	$ 1,927,733
Accumulated Amortization						
Balance at June 30, 2013	$ 130,284	$ -	$ 16,054	$ -	$ 215,853	$ 362,191
Amortization for period	1,000	32,455	8,983	-	189,000	231,438
Balance at June 30, 2014	$ 131,284	$ 32,455	$ 25,037	$ -	$ 404,853	$ 593,629
Amortization for period	1,000	129,818	-	-	170,896	301,714
Balance at June 30, 2015	$ 132,284	$ 162,273	$ 25,037	$ -	$ 575,749	$ 895,343
Carrying Amounts						
As at June 30, 2014	$ 4,862	$ 876,271	$ -	$ -	$ 162,145	$ 1,043,278
As at June 30, 2015	$ 3,862	$ 746,453	$ -	$ 238,326	$ 43,749	$ 1,032,390

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 the CEO and director of the Company (see Note 17). The Company owns the exclusive, worldwide license for the lifetime of the patents.

The Company is currently developing a Graphic User Interface (GUI) System, as at June 30, 2015, the system was not ready for use and the Company has not taken amortization on the asset.

(Expressed in Canadian dollars)

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
Inventory	$ 174,824
Equipment and furniture	206,450
Intangible assets - Patents	908,726
Total identifiable net assets	$ 1,290,000

8. PREPAID EXPENSE AND SUNDRY RECEIVABLE

Prepaid expense includes contracts paid in advance by the Company. Sundry receivable includes an amount due from the Government of Canada in relation to Harmonized Sales tax refunds. In fiscal year 2014, sundry receivable reflects an amount from an employee of the Company with respect to units purchased during a private placement. The sundry receivable has been settled and the balance at June 30, 2015 is $Nil (2014 - $76,142).

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2015	June 30, 2014
Trade payables	**$ 324,145**	$ 83,803
Accrued liabilities and other [(a)]	**353,103**	164,518
	$677,248	$248,321

(a) Included in accrued liabilities and other are payroll remittance arrears totaling $219,954 (2014 - $28,668).

(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, 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:

	June 30, 2015
2016	$ 91,728
2017	10,444
Total minimum payments	102,172
Less: interest at the implicit rate	(11,343)
Balance of the obligation	90,829
Less: Current portion	(80,558)
	$ 10,271

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

12. SHARE CAPITAL (Cont'd)

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 April 15, 2014, the Company completed a non-brokered private placement of 27,959,933 units of the Company at a price per Unit of $0.06 (the "Units"), for gross proceeds totaling $1,677,596. 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 $0.15 per Warrant Share for a term of 24 months from the closing date. Finder's fees on the placement in the amount of $167,759 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.

(c) 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' Units issued using the Black-Scholes model (Note 13). 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.

12. SHARE CAPITAL (Cont'd)

(d) 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. Finder's fees on the placement in the amount of $72,500 were paid in Units. The price was reserved with the TSX-V. The fair value of the Units was estimated using the Black-Scholes model (Note 13). As the value of services received could be reliably measured, the services have been measured at the fair value of the finder's units.

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.

(Expressed in Canadian dollars)

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

Stock Option Transactions	Number	Exercise Price	W.A Exercise Price
Balance at June 30, 2013	**14,569,900**		**$0.19**
Expired	(1,457,000)	$0.10-$0.15	$0.18
Forfeited	(3,215,000)	$0.12-$0.32	$0.49
Exercised	(350,000)	$0.05-$0.07	$0.02
Issued	5,250,000	$0.05-$0.15	$0.10
Balance at June 30, 2014	**14,797,900**		**$0.14**
Options issued	300,000	$0.10	$0.10
Options forfeited	(3,045,000)	$0.07-$0.15	$0.10
Options expired	(2,255,000)	$0.10-$0.21	$0.16
Options exercised	(275,000)	$0.05-$0.07	$0.06
Balance at June 30, 2015	**9,522,900**		**$0.08**
Exercisable at June 30, 2015	**9,310,400**		**$0.13**

As at June 30, 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	20,000	20,000	$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	1,300,000	1,300,000	$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	2,350,000	2,350,000	$0.07-$0.15	February 14, 2018
October 21, 2013	1,925,000	1,925,000	$0.10-$0.12	October 20, 2016
January 30, 2014	25,000	12,500	$0.07	December 15, 2018
March 3, 2014	900,000	900,000	$0.06-$0.15	March 30, 2017
May 10, 2014	100,000	50,000	$0.07	May 10, 2017
Nov 26, 2014	300,000	150,000	$0.10	Nov 26, 2016
	9,522,900	**9,310,400**		

The weighted average remaining contractual life of the outstanding options is 1.80 years.

(Expressed in Canadian dollars)

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.

	2015	2014
Expected dividend yield	**Nil**	Nil
Risk free interest rate	**1.02%**	1.48%
Expected volatility	**67%**	68%
Expected Life	**2.0 years**	3.0 years
Share price	**$0.04**	$ 0.07

Expected volatility is based on historical data.

Warrants

	Number	**Weighted-Average Exercise Price**	**Expiry Date**
Balance at June 30, 2013	108,745,005	$0.24	
Issued	12,375,000	$0.20	October 18, 2015
Issued	30,755,926	$0.15	April 15, 2016
Expired	(10,082,215)	$0.28	December 1, 2013-April 7, 2014
Balance at June 30, 2014	141,793,716	$0.16	
Issued	34,090,000	$0.12	November 17, 2016-May 15, 2017
Expired	(33,211,665)	$0.23	
Balance at June 30, 2015	**142,672,051**	**$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.

	2015	2014
Expected dividend yield	**Nil**	Nil
Risk free interest rate	**0.85%**	1.04%
Expected volatility	**77%**	70%
Expected life	**2.0 years**	1.92 years
Share price	**$0.04**	$ 0.07

Expected volatility is based on historical data.

(Expressed in Canadian dollars)

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

There was no modification of warrants in 2015. The fair value of the warrants modified during 2014 was determined using the Black-Scholes model for pricing warrants under the following weighted average assumptions:

	2015	2014
Expected dividend yield	**-**	Nil
Risk free interest rate	**-**	1.06%
Expected volatility	**-**	72%
Expected life	**-**	2.16 years
Share price	**-**	0.06

Expected volatility is based on historical data.

The Black-Scholes value attributed to these modifications was $Nil (2014 - $585,664) and has been recorded in deficit.

14. 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:

	2015	2014
Loss before income taxes	**$(2,993,408)**	$ (3,426,997)
Statutory rate	**26.50%**	26.50%
Income tax provision at statutory rate	**$ (793,300)**	$ (908,200)
Effect of income tax of:		
Non-deductible expense	**6,300**	45,900
Share issuance costs	**(3,100)**	(4,400)
Non- capital losses expired	**584,900**	531,900
Adjustment to non-capital losses and other assets	**(24,600)**	1,514,800
Change in tax rates and other	**-**	2,800
Change in deferred taxes not recognized	**229,800**	(1,182,800)
Provision for income taxes	**$ -**	$ -

(Expressed in Canadian dollars)

14. INCOME TAXES (Cont'd)

(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:

	2015	2014
Non-capital losses carried forward	**$ 5,725,500**	$ 5,632,700
Equipment, intangibles and other assets	**207,800**	64,000
Share issue costs	**7,800**	14,600
	5,941,100	5,711,300
Less: Deferred taxes not recognized	**(5,941,100)**	(5,711,300)
	$ -	$ -

The Company estimates that it will have approximately $21,606,000 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:

2026	$ 2,145,000
2027	238,000
2028	2,611,000
2029	2,097,000
2030	3,678,000
2031	2,119,000
2032	1,730,000
2033	1,504,000
2034	2,927,000
2035	2,557,000
	$ 21,606,000

15. 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, 2015.

16. 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 $100 impact on foreign exchange.

As at June 30, 2015 the Company held $183 (2014 - $59,822) of cash in US dollars.

As at June 30, 2015 the Company had $66,259 (2014 - $60,144) in accounts receivable that are in US dollars. As at June 30, 2015 the Company had $61,718 (2014 - $54,747) in accounts payable and accrued liabilities that are in US dollars. A 1% change in the foreign exchange rate would have a $45 impact on profit and loss.

(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, accounts receivables, accounts payable and accrued liabilities, due to related parties and other payables 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 June 30, 2015, approximately $21,350 (2014 - $31,642) of the Company's receivables were past due the average credit period of 90 days.

(Expressed in Canadian dollars)

16. 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 June 30, 2015, the Company has current liabilities of $1,406,179 due within 12 months and has a bank indebtedness balance of $43,290. As at June 30, 2015 the Company has working capital deficiency of $744,463 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.

17. 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	2016	2017	2018	2019	2020	Total
Premises	$144,000	$144,000	$144,000	$144,000	$144,000	$720,000
Equipment	$103,628	$ 16,137	$ -	$ -	$ -	$119,765

(b) The Company has an employment agreement with its Chief Executive Office and Chairman of the Board that will pay a royalty of 3% on gross sales that occur after the Termination Event as defined below. Termination Event includes the following; a) resignation within two years following a change of control and b) termination within two years following a change of control, other than termination for cause or death.

(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.

18. SUBSCRIPTION PROCEEDS RECEIVED IN ADVANCE

The Company has accumulated $80,000 towards a private placement that was started prior to the close of the year end but was not completed until July 2015 (See Subsequent events – Note 23).

19. 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 an exclusive license agreement in place with its CEO and Chairman of the Board regarding the use of patents related to the STAR-ISMS® technology.

The Company has an employment agreement in place with its CEO and Chairman of the Board regarding royalties to be paid upon future sales of the Company's ISMS products and becomes effective on the termination of the CEO. The Company has an agreement in place with the CEO dated June 30, 2015 that will pay the CEO $180,000 within the fiscal year 2016 and the balance to be paid subsequent to fiscal 2016 at the Company's discretion (See Note 17).

The amount due to related parties as of June 30, 2015 is $1,628,345 (2014 - $1,201,080) and is comprised of the following,

Due to Directors - $43,599 (2014 - $84,000), Due to Committee Chairpersons - $4,000 (2014 - $24,000), and Due to Chief Executive Officer - $1,505,369 (2014 - $1,093,000) and due to the Chief Operating Officer - $75,377 (2014 – $Nil).

During the year ended June 30, 2015, the CEO waived his right to demand repayment on amounts due to him by the Company for the next 12 months. The current portion of the amount due to related parties is $302,976 (2014 - $1,201,080). The long-term portion relates only to the amounts due to the CEO $1,325,369 (2014 - $Nil) and can be repaid by the Company at its discretion.

The Company also owes $23,403 (2014 - $2,425) in credit card debt that is guaranteed by the CEO and Chairman of the Board in accounts payables and accrued liabilities.

The amount due to related parties included in the consolidated statement of comprehensive loss as of June 30, 2015 is $705,709 (2014 – $562,385). This amount in general and administrative expense represents fees paid and accrued to directors and officers of the Company;

(Expressed in Canadian dollars)

19. RELATED PARTY TRANSACTIONS (Cont'd)

a) Accrued to the Company CEO is respect of salary $282,000 (2014 - $282,000), b) accrued interest of $70,030 (2014 – $49,501) regarding interest on the outstanding loan owed to the CEO. The rate of interest paid was Royal Bank of Canada prime + 2%.

Other accruals and payments were c) Board of Directors fees of $86,000 (2014 - $82,323), d) Chairperson fees of $52,197 (2014 - $47,505), e) Chief Operating Officer salary of $132,000 (2014 - $12,681) and f) salary paid to the Chief Financial Officer of $83,482 (2014 – $88,375).

The amounts owing to related parties are unsecured, bear interest at prime + 2.0% and have no fixed terms for repayment. The interest payable at prime + 2.0% is applicable to only the amount due to the CEO and Chairman of the Board. It is not applicable on amounts owed to members of the Board of Directors.

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 stock option program (Note 13).

	2015	2014
Salaries and wages	**$ 497,482**	$ 432,557
Directors' fees	**138,197**	129,828
Stock-based compensation	**1,314**	12,465
Total	**$ 636,993**	$ 574,850

20. SIGNIFICANT CUSTOMER

During the year ended June 30, 2015, 77% (2014 - 66%) of the revenue was generated from one customer. During year ended June 30, 2015, 84% (2014 – 89%) of the revenue recognized during the year was generated from customers located in the United States. During the year ended June 30, 2015, 96% (2014 – 22%) of revenue earned is from repairs and maintenance services on STAR-MMI flat panel displays units.

(Expressed in Canadian dollars)

21. EXPENSE DISCLOSURES

General and Administrative:

	2015	2014
Accounting fees	**$ 83,482**	$ 88,375
Audit & Legal	**110,456**	88,487
Bank charges & interest	**29,724**	6,918
Board and Committee fees	**138,197**	129,828
Consultant costs	**-**	69,692
Insurance	**111,200**	71,314
Other	**199,557**	266,598
Rent	**256,766**	161,812
Wages	**524,434**	446,865
Total G&A expenses	**$1,453,816**	$1,329,889

Research and development:

	2015	2014
Amortization expense	**$449,679**	$362,116
IT costs	**22,499**	-
R&D costs	**2,623**	150,959
Travel costs	**16,024**	24,617
Wages	**937,738**	774,559
Total R&D expenses	**$1,428,563**	$1,312,251

Marketing and Promotion:

	2015	2014
Consultant costs	**178,035**	221,363
Investor relations	**$108,060**	$154,573
Other	**10,133**	35,682
Salaries	**119,242**	52,446
Travel costs	**43,971**	105,290
Total M&P expenses	**$459,441**	$569,354

22. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

23. SUBSEQUENT EVENTS

(a) On July 20, 2015, the Company closed the first tranche of a non-brokered private placement, having issued 5,000,000 units of the Company (the "Units") at a price per Unit of $0.05 for gross proceeds of $250,000. 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. 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 of eight (8%) percent of gross proceeds in Units. The price was reserved with the TSX-V.

(b) On August 18, 2015, the Company closed the final tranche of its previously announced non-brokered private placement, having issued a total of 5,240,000 units of the Company (the "Units") at a price per Unit of $0.05 for gross proceeds of $262,000. 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 5,000,000 common shares expires November 25, 2015; the second tranche four month hold period on 240,000 common shares expires December 25, 2015. Any common shares issued as the result of conversion of warrants will also be subject to the same hold periods. In addition, 5,000,000 warrants will expire on July 25, 2017, while 240,000 warrants will expire on August 25, 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 128,000 Units. The price was reserved with the TSX-V.

(c) On October 2, 2015, the Company received approval from the TSX-V to extend the expiry date and amend the exercise price of 11,250,000 share purchase warrants which were issued pursuant to a private placement and were accepted for filing by the Exchange on October 24, 2013. The warrants were scheduled to expire on October 16, 2015 and were exercisable at $0.20 per share purchase warrant. The term has been extended to October 15, 2018 and the exercise price has been reduced to $0.08 per share purchase warrant.

23. SUBSEQUENT EVENTS (Cont'd)

(d) On August 14, 2015, the Company entered into a loan agreement with a private investor to borrow $200,000. Principal and interest is due on November 18, 2015. A total of $11,000 in legal fees, commitment fees and lender's fees and interest of $9,000 is due with the principal. The Company can repay the principal and interest, legal fees, commitment fees and lender's fees (the "fees") early without penalty. If the Company pays the principal in full on or before the following dates then the fees repayable are as follows; a) September 14, 2015 - $6,667 b) October 14, 2015 - $13,333 and c) November 14, 2015 - $20,000. The effective interest rate applicable to this loan is 25%. This loan is unsecured. If the principal and all accrued fees are not paid by the aforementioned date, the interest shall accrue from and after that date at the rate of 18% per annum calculated monthly not in advance.