Star Navigation Systems Group Ltd.

Consolidated Financial Statements

For the years ended June 30, 2016 and 2015

(Expressed in Canadian dollars)

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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, 2016 and June 30, 2015 and the consolidated statements of loss and comprehensive loss, changes in deficiency and cash flows for the years ended June 30, 2016 and June 30, 2015 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, 2016 and June 30, 2015 and its financial performance and its cash flows for the years ended June 30, 2016 and June 30, 2015 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

Chartered Professional Accountants
Licensed Public Accountants
November 3, 2016
Toronto, Ontario

Star Navigation Systems Group Ltd.
Consolidated Statements of Financial Position
As at June 30, 2016 and June 30, 2015
(Expressed in Canadian dollars)

	2016	2015
Assets		
Current		
Accounts receivable	$ **4,100**	$ 66,259
Inventory (Note 8)	**154,247**	332,621
Prepaid expenses and sundry receivables (Note 7)	**79,773**	262,836
	238,120	661,716
Property and equipment (Note 5)	**124,752**	220,892
Intangible assets (Note 6)	**29,111**	1,032,390
	$ **391,983**	$ 1,914,998
Liabilities		
Current		
Bank indebtedness (Note 9)	$ **59,464**	$ 43,290
Accounts payable and accrued liabilities (Note 10)	**944,172**	677,248
Current portion of finance lease obligation	**8,523**	80,558
Other payables (Note 11)	**196,000**	196,000
Loan payable (Note 17)	**246,102**	-
Subscription proceeds received in advance	**-**	80,000
Current portion of due to related parties (Note 19)	**623,995**	302,976
Deferred revenue	**26,107**	26,107
	2,104,363	1,406,179
Due to related parties (Note 19)	**1,325,369**	1,325,369
Finance lease obligation	**-**	10,271
	3,429,732	2,741,819
Shareholders' Equity (Deficiency)		
Share capital (Note 12)	**34,078,277**	33,138,534
Contributed surplus (Note 13)	**15,469,792**	14,723,831
Deficit	**(52,585,818)**	(48,689,186)
	(3,037,749)	(826,821)
	$ **391,983**	$ 1,914,998

Nature of Operations and Going Concern (Note 1)

Commitments and Contingencies (Note 18)

Subsequent Events (Note 22)

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
As at June 30, 2016 and June 30, 2015
(Expressed in Canadian dollars)

	2016	2015
Revenue (Note 20)	**$ 464,364**	$ 748,428
Expenses		
Cost of inventory consumed	**62,641**	98,018
Foreign exchange	**(4,365)**	(29,860)
General and administrative (Note 21)	**1,129,904**	1,453,816
Impairment of intangible assets (Note 6)	**881,444**	-
Marketing and promotion (Note 21)	**394,148**	459,441
Research and development (Note 21)	**1,081,307**	1,635,843
Stock based compensation (Note 13)	**40,134**	23,653
Impairment of inventory (Note 8)	**198,513**	-
	3,783,726	3,640,911
Loss from operations	**(3,319,362)**	(2,892,483)
Other Income (Expenses)		
Interest expense (Notes 11 & 19)	**(139,410)**	(100,388)
Loss on disposal of assets	**-**	(537)
	(139,410)	(100,925)
Net Loss and Comprehensive Loss for the Year	**$ (3,458,772)**	$ (2,993,408)
Basic and diluted loss per common share	**$ (0.01)**	$ (0.01)
Weighted average number of common shares outstanding	**363,539,721**	330,337,385

See accompanying notes

Star Navigation Systems Group Ltd.
Consolidated Statement of Changes in Deficiency
As at June 30, 2016 and June 30, 2015
(Expressed in Canadian dollars)

	Number of common shares	Number of Series I preferred shares	Share capital	Contributed surplus	Deficit	**Total**
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 year	-	-	-	-	(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)**
Issued on private placement (Note 12)	5,240,000	-	262,000	-	-	**262,000**
Issued as finders' fees on private placement (Note 12)	128,000	-	6,400	-	-	**6,400**
Issued on private placement (Note 12)	31,801,333	-	954,040	-	-	**954,040**
Issued as finders' fees on private placement (Note 12)	1,667,580	-	83,379	-	-	**83,379**
Value allocated to warrants as part of private placement (Note 12)	-	-	(267,968)	267,968	-	**-**
Share issuance costs	-	-	(98,109)	-	-	**(98,109)**
Stock-based compensation (Note 13)	-	-	-	40,134	-	**40,134**
Warrant modification (Note 13)	-	-	-	437,859	(437,859)	**-**
Loss for the year	-	-	-	-	(3,458,772)	**(3,458,772)**
Balance at June 30, 2016	**390,894,805**	**615,000**	**$34,078,277**	**$15,469,792**	**$(52,585,818)**	**$(3,037,749)**

See accompanying notes

Star Navigation Systems Group Ltd.
Consolidated Statements of Cash Flows
As at June 30, 2016 and June 30, 2015
(Expressed in Canadian dollars)

	2016	2015
Cash provided by (used in)		
Operations		
Net loss	$ **(3,458,772)**	$(2,993,408)
Items not affecting cash		
Depreciation	**96,140**	147,965
Amortization of intangible assets	**148,319**	301,714
Loss on disposal of assets	**-**	537
Impairment of inventory	**198,513**	-
Impairment of intangible assets	**881,444**	-
Stock-based compensation	**40,134**	23,653
Bad debt expense	**12,305**	-
Accrued interest	**123,455**	-
Issuance of common shares for services	**141,000**	-
	(1,817,462)	(2,519,539)
Net changes in non-cash working capital		
Accounts receivable	**49,854**	(6,115)
Inventory	**(20,139)**	107,543
Prepaid expenses and sundry receivables	**190,863**	21,839
Accounts payable and accrued liabilities	**523,173**	428,927
Deferred revenue	**-**	(37,932)
Due to related parties	**395,681**	427,265
	(678,030)	(1,578,012)
Investing		
Purchase of intangibles	**(26,484)**	(290,826)
Financing		
Repayment of finance lease obligation	**(82,306)**	(89,812)
Receipt of loan payable	**200,000**	-
Deposit on share subscription	**-**	80,000
Issuance of common shares (net of share issuance costs)	**570,646**	1,700,420
	688,340	1,690,608
Net change in bank indebtedness	**(16,174)**	(178,320)
Bank indebtedness, beginning of year	**(43,290)**	134,940
Bank indebtedness, end of year	$ **(59,464)**	$ (43,290)
Supplemental Disclosure		
Interest paid	$ **15,958**	$ 100,388
Issuance of units for finder's fees	**89,779**	162,500
Issuance of common shares for services	**148,800**	-
Issuance of common shares for settlement of debt	**408,265**	-

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 300-2970 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”.

Going Concern

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 $3,458,772 for the year ended June 30, 2016 (2015 – $2,993,408), has an accumulated deficit of $52,585,818 (June 30, 2015 - $48,689,186) and has negative working capital of $1,866,243 (2015 – $744,463). During the year ended June 30, 2016, the Company had one customer in which 96% of its revenue was received from (2015 – 96% of revenue from three customers). The Company is also in default of remitting payroll withholding taxes to the Canadian Revenue Agency and is overdue on the payment of its trade payables. 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. These consolidated financial statements do not reflect adjustments in the carrying values of the Company’s assets and liabilities, revenues and expenses, and the balance sheet classifications used, that may be necessary should the Company be unable to continue its operations. Such adjustments could be material.

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 IFRS Interpretations Committee ("IFRSIC"). The consolidated financial statements for the year ended June 30, 2016 were authorized for issue by the Board of Directors on November 3, 2016.

(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”).

2. BASIS OF PRESENTATION (Cont'd)

(c) Functional and presentation currency

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

(d) Basis of Preparation

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Company's management to exercise judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where the assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2(e).

(e) Accounting Estimates and Judgements

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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Inventory (Cont'd)

Work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Property and Equipment

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 depreciation applied to equipment over their estimated useful lives are as follows:

Leasehold improvements	- 5 years, straight-line
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, 2016, therefore no amortization was taken in 2016.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Intangible Assets (Cont'd)

(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.

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 all 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.

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.

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

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. During the year ended June 30, 2016, $447,879 (2015 - $703,848) of total revenue related to this revenue stream, see Note 20 for discussion on customer dependency.

The Company recognizes revenue at the time persuasive evidence of an arrangement exists, the 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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue Recognition (Cont'd)

received the necessary regulatory approvals. Installations are generally conducted by customers under the Company's management and supervision. In the event the customer chooses to manage the installation without the Company's supervision, revenues are recognized when the product is delivered to the customer.

Revenues from airtime services are recognized as the services are performed based on air time used by the customer. The customer is billed at the end of each month.

In the event that the Company's STAR-ISMS® and airtime are sold as a bundled package, the Company enters into transactions that represent multiple-element arrangements. These multiple-element arrangements are assessed to determine whether they can be sold separately in order to determine if they can be treated as more than one unit of accounting or element for the purpose of revenue recognition. When there are multiple elements or units of accounting in an arrangement, the arrangement consideration is allocated to the separate units of accounting or elements on a relative fair value basis, as determined by reliable objective evidence of fair value. Objective evidence of fair value is based on the price charged when the elements are sold separately, which is in accordance with the Company's standard price list. If elements cannot be sold separately, revenue recognition is deferred until all elements have been delivered.

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.

Provisions

A provision is recognized on the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, 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, where appropriate, the risks specific to the liability.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Share Capital

Common shares and preferred 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 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. 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.

Financial Instruments

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

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

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

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial Instruments (Cont'd)

(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.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial Instruments (Cont'd)

Fair Value Hierarchy

The following summarizes the methods and assumptions used in estimating the fair value of the Company's financial instruments where fair value measurement is required. These include bank indebtedness. 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, 2016	**Level One**	**Level Two**	**Level Three**
Bank indebtedness	**$ (59,464)**	**$ -**	**$ -**

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

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.

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, 2016 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.

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.

4. RECENT ACCOUNTING PRONOUNCEMENTS ISSUED AND NOT YET APPLIED

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. 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.

Leases – IFRS 16

Leases (‘IFRS 16”) replaces IAS 17, Leases (“IAS 17”). The new model requires the recognition of almost all lease contracts on a lessee’s statement of financial position as a lease liability reflecting future lease payments and a ‘right-of-use asset’ with exceptions for certain short-term leases and leases of low-value assets. In addition, the lease payments are required to be presented on the statement of cash flow within operating and financing activities for the interest and principal portions, respectively. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15, Revenue from Contracts with Customers, is also applied. The Company is still evaluating the impact of the adoption of IFRS 16.

(Expressed in Canadian dollars)

5. PROPERTY AND EQUIPMENT

	Leasehold Improvements	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
Disposals	-	-	-	-	(6,690)	(6,690)
Balance at June 30, 2015	$ 84,626	$ 275,630	$ 151,422	$ 318,795	$ -	$ 830,473
Additions	-	-	-	-	-	-
Balance at June 30, 2016	**$ 84,626**	**$ 275,630**	**$ 151,422**	**$ 318,795**	**$ -**	**$ 830,473**
Accumulated Depreciation						
Balance at June 30, 2014	$ 79,613	$ 93,946	$ 141,865	$ 146,422	$ 5,923	$ 467,769
Depreciation 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
Depreciation for the year	-	50,657	2,389	43,094	-	96,140
Balance at June 30, 2016	**$ 84,626**	**$ 196,359**	**$ 149,033**	**$ 275,703**	**$ -**	**$ 705,721**
Carrying Amounts						
As at June 30, 2015	$ -	$ 129,928	$ 4,778	$ 86,186	$ -	$ 220,892
As at June 30, 2016	**$ -**	**$ 79,271**	**$ 2,389**	**$ 43,092**	**$ -**	**$ 124,752**

(Expressed in Canadian dollars)

6. INTANGIBLE ASSETS

Cost	License Rights [(a)]	STAR-MMI Technology and Patents[(b)]	Website Costs	GUI System	STAR-ISMS ® and Peripherals	Total
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
Additions	-	-	-	26,484	-	26,484
Balance at June 30, 2016	**$ 136,146**	**$ 908,726**	**$ 25,037**	**$ 264,810**	**$ 619,498**	**$ 1,954,217**
Accumulated Amortization and Impairment						
Balance at June 30, 2014	$ 131,284	$ 32,455	$ 25,037	$ -	$ 404,853	$ 593,629
Amortization for year	1,000	129,818	-	-	170,896	301,714
Balance at June 30, 2015	$ 132,284	$ 162,273	$ 25,037	$ -	$ 575,749	$ 895,343
Amortization for year	1,000	129,819	-	-	17,500	148,319
Impairment	-	616,634	-	264,810	-	881,444
Balance at June 30, 2016	**$ 133,284**	**$ 908,726**	**$ 25,037**	**$ 264,810**	**$ 593,249**	**$ 1,925,106**
Carrying Amounts						
As at June 30, 2015	$ 3,862	$ 746,453	-	$ 238,326	$ 43,749	$ 1,032,390
As at June 30, 2016	**$ 2,862**	**$ -**	**-**	**$ -**	**$ 26,249**	**$ 29,111**

(a) 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 19). The Company owns the exclusive, worldwide license for the lifetime of the patents.

(b) During the year ended June 30, 2016, the Company recognized an impairment loss of $616,634 on the STAR-MMI technology and patents acquired as part of an asset acquisition on April 1, 2014 and $264,810 on the GUI system. The impairment loss on the STAR-MMI technology and patents was recognized as a result of the decrease in sales of STAR-MMI related revenue and the reduction in the client base which resulted in the Company relying on one customer for its STAR-MMI revenue stream. The impairment loss on the GUI system was recognized as a result of the asset not meeting management's expectations in generating the expected future benefits.

(Expressed in Canadian dollars)

7. PREPAID EXPENSE AND SUNDRY RECEIVABLES

Prepaid expense includes contracts paid in advance by the Company, which as at June 30, 2016 amounted to $4,425 (2015 - $42,069). Sundry receivable includes an amount due from the Government of Canada in relation to Harmonized Sales Tax refunds, which as at June 30, 2016 amounted to $75,348 (2015 - $220,767).

8. INVENTORY

Inventory related to STAR-ISMS® amounted to $100,340 (2015 – $177,384), which is net of an impairment of $110,318 (2015 - $NIL). Inventory related to STAR-MMI amounted to $53,907 (2015 – $155,237), which is net of an impairment of $88,195 (2015 - $NIL). The impairment recorded for both the STAR-ISMS® and STAR-MMI inventory was to reflect the net realizable value as at June 30, 2016.

9. BANK INDEBTEDNESS

The Company has an overdraft protection limit of $50,000.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2016	June 30, 2015
Trade payables	**$ 448,918**	$ 324,145
Accrued liabilities and other [(a)]	**495,254**	353,103
	$ 944,172	$ 677,248

(a) Included in accrued liabilities and other are payroll remittance arrears owing to the Canada Revenue Agency ("CRA") totaling $358,054 (2015 - $219,954).

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.

(Expressed in Canadian dollars)

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

Share Capital Activity

(a) 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.

(b) 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 expired August 30, 2015; the second tranche four month hold period on 6,140,000 common shares expired 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. 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.

12. SHARE CAPITAL (Cont'd)

Share Capital Activity (Cont'd)

(c) On August 18, 2015, the Company closed the final tranche of a 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. Included in the total Units issued as part of this non-brokered private placement are 730,000 Units issued to settle $36,500 worth of trade payable and 770,000 Units issued to settle $38,500 of related party loans, no gain or loss was recognized as a result of these settlements. In addition, included in the total Units issued as part of this non-brokered private placement are 1,356,000 Units issued for investor relations services of $67,800 which includes HST of $7,800.

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. Star has agreed to pay finder's fees in the amount of 128,000 Units valued at $6,400.

(d) On April 13, 2016, the Company closed a non-brokered private placement, having issued 31,801,333 units of the Company (the "Units") at a price per Unit of $0.03 for gross proceeds of $954,040. Each Unit consists of one common share in the capital of the Company and one warrant. Each of the warrants acquired entitles the holder to purchase one additional common share of the Corporation at seven ($0.07) cents per warrant exercised. The warrants are exercisable during the three year period from the date of issue. Included in the total Units issued as part of this non-brokered private placement are 7,325,000 Units issued to settle $219,750 worth of trade payable and 3,783,833 Units issued to settle $113,515 of related party loans, no gain or loss was recognized as a result of these settlements. In addition, included in the total Units issued as part of this non-brokered private placement are 2,700,000 Units issued for investor relations services of $81,000.

In addition, Star has agreed to pay finder's fees in the amount of 1,667,580 Units valued at $83,379.

(Expressed in Canadian dollars)

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	W.A Exercise Price
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**		**$0.13**
Options issued	3,970,000	$0.05	$0.05
Options expired	(1,970,000)	$0.07-$0.32	$0.15
Options forfeited	(850,000)	$0.05-$0.15	$0.10
Balance at June 30, 2016	**10,672,900**		**$0.10**
Exercisable at June 30, 2016	**7,077,900**		**$0.13**

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

	2016	2015
Expected dividend yield	**Nil**	Nil
Risk free interest rate	**0.71%**	1.02%
Expected volatility	**77%**	67%
Expected life	**5.0 years**	2.0 years
Share price	**$0.03**	$0.04

Expected volatility is based on historical data.

(Expressed in Canadian dollars)

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

Stock-Based Compensation (Cont'd)

As at June 30, 2016 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
May 31, 2011	50,000	50,000	$0.07	May 31, 2018
June 6, 2012	400,000	400,000	$0.15-$0.20	August 22, 2016-February 17, 2018
August 31, 2012	120,000	120,000	$0.20	August 31, 2016
January 15, 2013	1,382,900	1,382,900	$0.15	January 14, 2018
February 15, 2013	2,350,000	2,350,000	$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	25,000	$0.07	December 15, 2018
March 3, 2014	300,000	300,000	$0.06-$0.12	March 30, 2017
May 10, 2014	100,000	100,000	$0.07	May 10, 2017
Nov 26, 2014	300,000	300,000	$0.10	Nov 26, 2016
March 31, 2016	1,400,000	275,000	$0.05	March 1, 2021
March 31, 2016	2,470,000	-	$0.05	March 1, 2021
	10,672,900	**7,077,900**		

The weighted average remaining contractual life of the outstanding options is 2.22 years.

Warrants

	Number	Weighted-Average Exercise Price	Expiry Date
Balance at June 30, 2014	141,793,716	$0.16	
Issued	34,090,000	$0.12	November 17, 2016-May15, 2017
Expired	(33,211,665)	$0.23	
Balance at June 30, 2015	142,672,051	$0.14	
Issued	38,836,913	$0.07	July 25, 2017-April 15, 2019
Expired	(15,668,993)	$0.19	September 15, 2015-May 5, 2016
Balance at June 30, 2016	**165,839,971**	**$0.12**	

(Expressed in Canadian dollars)

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

Warrants

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

	2016	2015
Expected dividend yield	**Nil**	Nil
Risk free interest rate	**0.42%-0.58%**	Nil
Expected volatility	**71%-83%**	Nil
Expected life	**2-3 years**	Nil
Share price	**$0.03-$0.04**	Nil

Expected volatility is based on historical data.

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:

	2016	2015
	$	$
Loss before income taxes	**(3,458,772)**	(2,993,408)
Statutory rate	**26.5%**	26.5%
Income tax provision at statutory rate	**(916,600)**	(793,300)
Effect of income of:		
Non-deductible expense	**10,700**	6,300
Share issuance costs	**(2,200)**	(3,100)
Non-capital losses expired	**568,400**	584,900
Adjustment to non-capital losses and other assets	**63,500**	(26,400)
Changes in deferred taxes not recognized	**276,100**	229,800
Provision for income taxes	**-**	-

(b) Deferred Income Taxes

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

	2016	2015
	$	$
Non-capital losses carried forward	**5,690,600**	5,725,500
Equipment, intangibles and other assets	**520,100**	207,800
Share issue costs	**6,500**	7,800
	6,217,200	5,941,100
Less: Deferred taxes not recognized	**(6,217,200)**	(5,941,100)
	-	-

(Expressed in Canadian dollars)

14. INCOME TAXES (Cont'd)

(b) Deferred Income Taxes (Cont'd)

The Company estimates that it will have approximately $21,475,000 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:

	$
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**
2036	**2,014,000**
	21,475,000

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 period ended June 30, 2016.

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 5% change in the foreign exchange rate would have a $500 impact on foreign exchange.

As at June 30, 2016 the Company held $2,424 (June 30, 2015 - $183) of cash in US dollars, as well the Company had $4,100 (June 30, 2015 - $66,259) in accounts receivable that are in US dollars. As at June 30, 2016 the Company had $60,102 (June 30, 2015 - $61,718) in accounts payable and accrued liabilities that are in US dollars. A 5% change in the foreign exchange rate would have a $1,150 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, loan payable 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 20, the Company earns a significant amount of revenue from one customer. As at June 30, 2016, approximately $4,100 (June 30, 2015 - $21,350) 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, 2016, the Company has current liabilities of $2,104,363 (2015 - $1,406,179) due within 12 months and has a bank indebtedness balance of $59,464 (2015 - $43,290). As at June 30, 2016 the Company has working capital deficiency of $1,866,243 (2015 - $744,463) and accordingly, the Company is subject to significant liquidity risk. Management will continue to raise capital to develop, market and promote its STAR-ISMS® technology and to maintain its operations.

17. LOAN PAYABLE

On August 14, 2015, the Company entered into a loan agreement with a private investor to borrow $200,000. Principal and interest was due on November 18, 2015. A total of $11,000 in legal fees, commitment fees and lender's fees and interest of $9,000 was due with the principal. The Company could have repaid the principal and interest, legal fees, commitment fees and lender's fees (the "fees") early without penalty. The effective interest rate applicable to this loan was 25%. This loan is unsecured. As the principal and all accrued fees are not paid by the maturity date, the interest shall accrue from and after that date at the rate of 18% per annum calculated monthly not in advance. The loan was not repaid on November 18, 2015 and interest has started to accrue at 18% per annum. Interest accrued at June 30, 2016 was $46,102.

18. 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	2017	2018	2019	2020	2021	Total
Premises	$144,000	$144,000	$144,000	$ -	$ -	$432,000
Equipment	$ 17,584	$ -	$ -	$ -	$ -	$ 17,584

(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 of any STAR-ISMS® units 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.

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 amounts for repayment 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 a company owned and controlled by 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 STAR-ISMS® technology products which becomes effective under certain conditions on the termination of the CEO from the Company (Note 18(b)).

The Company had an employment agreement in place with its CEO and Chairman of the Board regarding salary forgiveness for the year ended June 30, 2016. In lieu of salary for the year ended June 30, 2016, the CEO received compensation based on ten-percent of total revenue related to repairs and maintenance of STAR-MMI which amounted to $44,801.

During the year ended June 30, 2016, the Company settled a $21,700 payable to a vendor in exchange for 434,000 issued and outstanding common shares of the Company. These common shares were held by a third party who agreed to transfer their shares in exchange for a personal guarantee from the CEO to repay the third party. As at June 30, 2016, the $21,700 is included in the interest bearing component of the amount due to CEO (prime + 2% per annum).

During the year ended June 30, 2016, the Company settled a $20,000 payable to a vendor in exchange for 400,000 issued and outstanding common shares of the Company that were held by the CEO. The Company has the option to repay the CEO with 400,000 common shares of the Company or in cash. As at June 30, 2016, the $20,000 is included in the interest bearing component of the amount due to CEO (prime + 2% per annum).

(Expressed in Canadian dollars)

19. RELATED PARTY TRANSACTIONS (Cont'd)

The amount due to related parties as of June 30, 2016 is $1,949,364 (June 30, 2015 - $1,628,345) and is comprised of the following:

	2016	2015
Due to Directors	**$ 115,396**	$ 43,599
Due to Committee Chairpersons	**26,000**	4,000
Due to Chief Executive Officer [(a)]	**1,670,012**	1,505,369
Due to Chief Operating Officer	**126,677**	75,377
Due to Chief Financial Officer	**11,279**	-
Total at June 30, 2016	**$1,949,364**	$1,628,345

(a) $1,480,448 of the balance bears interest at prime + 2% per annum; $19,564 of the balance bears no interest; and $170,000 of the balance bears interest at 8% per annum. All amounts are unsecured and have no fixed terms of repayment other than the $170,000, which is due June 10, 2017.

The Company has a loan agreement in place with the CEO dated June 30, 2015. The agreement provides that the loan be separated into both short and long-term portions of the obligation owed to the CEO. The CEO has waived his right to demand repayment on the long-term amounts due to him by the Company prior to June 30, 2017. Of the $1,480,448 balance, the CEO has waived his right to demand repayment of $1,325,369 of the balance prior to June 30, 2017. The agreement provides that up to $180,000 could be paid towards the short-term portion of the loan within the fiscal year 2017. The balance will be paid subsequent to fiscal 2017. As at June 30, 2016, the balance drawn on this loan is $170,000 and is included in the current portion of due to related parties.

The Company also owes $33,537 (2015 - $23,403) in credit card debt that is guaranteed by the CEO and Chairman of the Board in accounts payables and accrued liabilities.

As part of the private placement that closed on August 15, 2015, 690,000 Units were issued to the CEO for settlement of $34,500 and 80,000 Units were issued to the CFO for settlement of $4,000. As part of the private placement that closed on April 13, 2016, 2,050,000 Units were issued to the CEO for settlement of $61,515, 733,333 Units were issued to the CFO for settlement of $22,000 and 1,000,000 Units were issued to the COO for settlement of $30,000.

Key management personnel cost included in the consolidated statement of comprehensive loss as of June 30, 2016 is $534,191 (2015 - $705,709). This amount in general and administrative expense represents fees paid and accrued to directors and officers of the Company:

	2016	2015
Chief Executive Officer	**$ 56,801**	$ 282,000
Chief Operating Officer	**186,000**	132,000
Chief Financial Officer	**84,840**	83,482
Board of Director fees	**82,000**	86,000
Committee Chairperson fees	**47,197**	52,197
Interest on loan to Chief Executive Officer	**77,353**	70,030
Total for the year	**$ 534,191**	$ 705,709

(Expressed in Canadian dollars)

20. SIGNIFICANT CUSTOMER

During the period ended June 30, 2016, 96% (June 30, 2015 – 77%) of the revenue was generated from one customer. During the period ended June 30, 2016, 99% (June 30, 2015 – 84%) of the revenue recognized during the year was generated from customers located in the United States. During the period ended June 30, 2016, 96% (June 30, 2015 – 96%) of revenue earned is from repairs and maintenance services on STAR-MMI flat panel displays units.

21. EXPENSE DISCLOSURES

General and Administrative	**2016**	2015
Accounting fees	**$84,840**	$83,482
Bank charges & interest	**14,765**	29,724
Board and Committee fees	**129,197**	138,197
Insurance	**116,823**	111,200
Other	**207,756**	199,557
Professional fees	**58,113**	110,456
Rent	**204,922**	256,766
Wages	**313,497**	524,434
Total G&A expenses	**$1,129,904**	$1,453,816

Research and Development:	**2016**	2015
Amortization expense	**$244,458**	$449,679
IT costs	**21,000**	22,499
R&D costs	**74,010**	55,699
Travel costs	**10,700**	16,024
Wages	**731,139**	1,091,942
Total R&D expenses	**$1,081,307**	$1,635,843

Marketing and Promotion	**2016**	2015
Consultant costs	**$ 147,607**	$178,035
Investor relations	**171,000**	108,060
Other	**-**	10,131
Salaries	**33,805**	119,242
Travel costs	**41,736**	43,973
Total M&P expenses	**$394,148**	$459,441

22. SUBSEQUENT EVENTS

The Company has been named as one of the defendants in a lawsuit commenced in Ontario Superior Court, with respect to assets purchased by the Company in 2014. The Company considers the allegations made against it in the lawsuit to be without merit and will vigorously defend the action.

23. PRIOR YEAR COMPARATIVE FIGURES

Prior year comparative figures have been reclassified in the statement of loss and comprehensive loss to conform to current year presentation. There was no impact on the net loss and loss per share.