Star Navigation Systems Group Ltd.

Consolidated Financial Statements

For the years ended June 30, 2017 and 2016

(Expressed in Canadian dollars)

DNTW Toronto LLP
Chartered Professional Accountants
Licensed Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Star Navigation Systems Group Ltd.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Star Navigation Systems Group Ltd., which comprise the consolidated statement of financial position as at June 30, 2017, and the consolidated statements of loss and comprehensive loss, changes in deficiency, and cash flows for the year then ended, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 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. as at June 30, 2017, and its financial performance and its cash flows for the year then ended 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. incurred a net loss of $2,052,437 for the year ended June 30, 2017, has an accumulated deficit of $54,638,255, and has negative working capital of $4,603,856. These conditions, along with other matters set forth in note 1, indicate the existence of a material uncertainty that may cast significant doubt about its ability to continue as a going concern.

Other Matter

The consolidated financial statements of Star Navigation Systems Group Ltd. for the year ended June 30, 2016, were audited by another auditor who expressed an unmodified opinion on those statements on November 3, 2016.

DNTW Toronto LLP

October 30, 2017
Toronto, Ontario

Chartered Professional Accountants
Licensed Public Accountants

Star Navigation Systems Group Ltd.
Consolidated Statements of Financial Position
As at June 30, 2017 and June 30, 2016
(Expressed in Canadian dollars)

		2017		2016
Assets				
Current				
Cash (Note 9)	$	141,891	$	-
Accounts receivable		74,085		4,100
Inventory (Note 8)		153,874		154,247
Prepaid expenses and sundry receivable (Note 7)		45,946		79,773
		415,796		238,120
Property and equipment (Note 5)		79,879		124,752
Intangible assets (Note 6)		10,607		29,111
	$	506,282	$	391,983
Liabilities				
Current				
Bank indebtedness (Note 9)	$	-	$	59,464
Accounts payable and accrued liabilities (Note 10)		1,313,862		944,172
Current portion of finance lease obligation		-		8,523
Other payables (Note 11)		196,000		196,000
Loans payable (Note 17)		810,005		246,102
Deferred revenue		134,542		26,107
Due to related parties (Note 18)		2,565,243		623,995
		5,019,652		2,104,363
Due to related parties (Note 18)		-		1,325,369
		5,019,652		3,429,732
Deficiency				
Share capital (Note 12)		34,605,977		34,078,277
Contributed surplus (Note 13)		15,518,908		15,469,792
Deficit		(54,638,255)		(52,585,818)
		(4,513,370)		(3,037,749)
	$	506,282	$	391,983

Nature of Operations and Going Concern (Note 1)

Commitments and Contingencies (Note 19)

Approved by the Board ***"Viraf S. Kapadia"*** ***"Gus Nariman"***

Director *(Signed)* ***Director*** *(Signed)*

Star Navigation Systems Group Ltd.
Consolidated Statements of Loss and Comprehensive Loss
As at June 30, 2017 and June 30, 2016
(Expressed in Canadian dollars)

	2017	2016
Revenue (Note 20)	**$ 413,135**	$ 464,364
Expenses		
Cost of inventory consumed	**65,692**	62,641
General and administrative (Note 21)	**1,244,306**	1,129,904
Research and development (Note 21)	**773,140**	1,081,307
Marketing and promotion (Note 21)	**147,128**	394,148
Foreign exchange loss (gain)	**13,197**	(4,365)
Stock based compensation (Note 13)	**49,116**	40,134
Impairment of intangible assets (Note 6)	**-**	881,444
Impairment of inventory (Note 8)	**41,188**	198,513
	2,333,767	3,783,726
Loss from Operations	**(1,920,632)**	(3,319,362)
Other Income (Expenses)		
Recovery of funds advanced (Note 22)	**24,500**	-
Interest expense (Note 17 & 18)	**(156,305)**	(139,410)
	(131,805)	(139,410)
Net Loss and Comprehensive Loss for the year	**$ (2,052,437)**	$ (3,458,772)
Basic and diluted loss per common share	**$ (0.005)**	$ (0.01)
Weighted average number of common shares outstanding	**391,111,668**	363,539,721

Star Navigation Systems Group Ltd.
Consolidated Statements of Changes in Deficiency
As at June 30, 2017 and June 30, 2016
(Expressed in Canadian dollars)

	Number of common shares	Number of Series I preferred shares	Share capital	Contributed surplus	Deficit	**Total**
Balance at June 30, 2015	**352,057,892**	**615,000**	**$33,138,534**	**$14,723,831**	**$(48,689,186)**	**$(826,821)**
Issued for cash 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 for cash 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	-	-	-	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)**
Issued for cash on warrants exercised (Note 12)	8,795,000		527,700	-	-	**527,700**
Stock-based compensation (Note 13)	-	-	-	49,116	-	**49,116**
Loss for the year	-	-	-	-	(2,052,437)	**(2,052,437)**
Balance at June 30, 2017	**399,689,805**	**615,000**	**$34,605,977**	**$15,518,908**	**$(54,638,255)**	**$(4,513,370)**

Star Navigation Systems Group Ltd.
Consolidated Statements of Cash Flows
As at June 30, 2017 and June 30, 2016
(Expressed in Canadian dollars)

	2017	2016
Cash provided by (used in)		
Operations		
Net loss	**$ (2,052,437)**	$ (3,458,772)
Items not affecting cash		
Depreciation	**44,873**	96,140
Amortization of intangible assets	**18,504**	148,319
Impairment of inventory	**41,188**	198,513
Impairment of intangible assets	**-**	881,444
Stock-based compensation	**49,116**	40,134
Issuance of common shares for services	**-**	141,000
Bad debt expense	**-**	12,305
Accrued interest on loans payable	**148,454**	123,455
	(1,750,302)	(1,817,462)
Net changes in non-cash working capital		
Accounts receivable	**(69,985)**	49,854
Inventory	**373**	(20,139)
Prepaid expenses and sundry receivables	**33,827**	190,863
Accounts payable and accrued liabilities	**369,690**	523,173
Deferred revenue	**67,247**	-
	(1,349,150)	(1,073,711)
Investing		
Purchase of intangibles	**-**	(26,484)
Financing		
Repayment of finance lease obligation	**(8,523)**	(82,306)
Proceeds from loans payable, net	**270,700**	200,000
Due to related parties, net	**760,628**	395,681
Issuance of common shares (net of share issuance costs)	**527,700**	570,646
	1,550,505	1,084,021
Net change in cash (bank indebtedness)	**201,355**	(16,174)
Bank indebtedness, beginning of year	**(59,464)**	(43,290)
Cash (bank indebtedness), end of year	**$ 141,891**	$ (59,464)
Supplemental Disclosure		
Interest paid	**$ 35,337**	$ 15,958
Issuance of common share units for finder's fees	**-**	89,779
Issuance of common shares for services	**-**	148,800
Issuance of common shares for settlement of debt	**-**	408,265

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. The Company has been granted supplemental type certificates for use of the systems on a Boeing 737, 727, Airbus A321, A320, A340 and a Learjet 45.

The Company was incorporated by Certificate of Incorporation issued pursuant to the provisions of the Business Corporations Act (*Ontario*) in May 2000 and its registered address is located at 300-2970 Lakeshore Blvd W., Toronto, Ontario M8V 1J7. The Company is a public company listed on the Canadian Securities Exchange trading under the symbol of "SNA".

Going Concern

These consolidated financial statements have been prepared using accounting policies applicable to 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 as they become due. The Company incurred a net loss of $2,052,437 for the year ended June 30, 2017 (June 30, 2016 – $3,458,772), has an accumulated deficit of $54,638,255 (June 30, 2016 - $52,585,818) and has negative working capital of $4,603,856 (June 30, 2016 – $1,866,243). The Company is also in default of remitting payroll withholding taxes to the Canada Revenue Agency and is overdue on the payment of its trade payables. Whether and when the Company can attain profitability and positive cash flows from operations 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 as a going concern or be unable to realize its assets and discharge its liabilities in the normal course of 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 International Financial Reporting Interpretations Committee ("IFRIC"). The consolidated financial statements for the year ended June 30, 2017 were authorized for issue by the Board of Directors on October 30, 2017.

(b) Basis of Measurement

These consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments which are measured at fair value.

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 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.

(e) Critical Accounting Estimates, Judgments, and Assumptions

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these judgments, estimates and assumptions could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements are as follows:

(i) Net realizable value of inventory:

Net realizable value for inventory is determined based on the selling price of the products in the normal course of operations. The selling price is impacted by several factors including, age and condition of the products, technical obsolescence, and market conditions in the customer's industry. Management estimates the selling price of inventory based on first-hand knowledge of the industry and the specific products held in inventory at year-end. These estimates will affect the carrying value of inventory and the amount of cost of goods sold.

(ii) Allowance for doubtful accounts:

Accounts receivable are reviewed for collectability on a weekly basis. Management is required to make judgment whether a receivable balance is collectable based on their relationship with the counterparty and knowledge of the counterparty's financial position. These judgments will affect the reported amount of accounts receivable as well as bad debts expense.

2. BASIS OF PRESENTATION (Cont'd)

(e) Critical Accounting Estimates, Judgments, and Assumptions (Cont'd)

(iii) Useful lives and impairment of capital assets and intangible assets:

Capital assets and intangible assets are amortized based on their estimated useful lives, which is the lesser of the economic life or the legal life of the asset. Management reviews the carrying value of these assets annually to determine if all items are still in use or are no longer expected to generate future benefit. These estimates will affect the carrying value of capital assets and intangible assets and the amount of depreciation and impairment expenses.

(iv) Stock-based compensation expense:

The Company uses the Black-Scholes option pricing model to determine the fair value of options in order to calculate stock-based compensation expense. The Black-Scholes model involves six key inputs to determine the fair value of an option: risk-free interest rate, exercise price, market price at the date of issue, expected dividend yield, expected life, and expected volatility. Certain of the inputs are estimates that involve considerable judgment and are or could be affected by significant factors that are out of the Company's control. The Company is also required to estimate the future forfeiture rate of options based on historical information in its calculation of stock-based compensation expense.

(v) Valuation of warrants:

The Company uses the Black-Scholes option pricing model to calculate the value of warrants issued as part of the Company's private placements. The Black-Scholes model requires six key inputs to determine a value for a warrant: risk free interest rate, exercise price, market price at date of issue, expected dividend yield, expected life and expected volatility. Certain of the inputs are estimates which involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control. For example, a longer expected life of the warrant or a higher volatility number used would result in an increase in the warrant value.

The significant areas of judgment considered by management in preparing the consolidated financial statements are as follows:

(i) Going concern:

The Company's management has made an assessment of the Company's ability to continue as a going concern and the consolidated financial statements continue to be prepared on a going concern basis. However, management does not believe the Company has sufficient cash on hand to meet the Company's operating expenditures beyond June 30, 2017 which may cast significant doubt upon the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

(ii) Deferred tax assets:

Deferred tax assets are recognized in respect of tax losses and other temporary differences to the extent it is probable that taxable income will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized based upon the likely timing and level of future taxable income together with future tax planning strategies.

3. SIGNIFICANT ACCOUNTING POLICIES

Inventory

The Company's inventory consists of STAR-ISMS® units and STAR-MMI parts inventory. Inventory is valued at the lower of cost or net realizable value. Cost is determined using the weighted average cost method and includes the cost of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided at rates designed to amortize the cost of the assets over their estimated useful lives 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
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, 2017, therefore no amortization was taken in 2017 and 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.

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)

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, 2017, $336,698 (2016 - $447,879) 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 received the necessary regulatory approvals. Installations are generally conducted by customers under the Company's management and supervision. In the event the customer chooses to manage the installation without the Company's supervision, revenues are recognized when the product is delivered to the customer.

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

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

Foreign Exchange

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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) 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.

Financial liabilities are classified into one of two categories:

(a) Fair value through profit or loss ("FVTPL")

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
Cash	FVTPL
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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Fair Value Hierarchy

The Company has a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Company's consolidated financial instruments. The hierarchy of inputs is summarized below:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities. An active market is one in which transactions for the assets occur with sufficient frequency and volume to provide pricing information on an ongoing basis;

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices); and

Level 3 - inputs for the asset or liability that are not based on observable market data.

The classification of a financial instrument in the fair value hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

The Company's only financial instruments measured at fair value are cash and bank indebtedness. These instruments are categorized in Level 1.

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.

(a) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment (Cont'd)

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.

Changes in Accounting Policies

Effective July 1, 2016, the Company has adopted amendments to IAS 16, *Property, Plant and Equipment* ("IAS 16") and IAS 38, *Intangible Assets* ("IAS 38"). These changes were made in accordance with the applicable transitional provisions for which there was no impact on the Company's consolidated financial statements for the year ended June 30, 2017.

4. RECENT ACCOUNTING PRONOUNCEMENTS ISSUED AND NOT YET APPLIED

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods after June 30, 2017 or later periods. Many are not applicable or do not have a significant impact to the Company. The following have not yet been adopted and are being evaluated to determine the resultant impact on the Company.

Financial Instruments - IFRS 9

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 new standard is 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"), 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

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

Revenue from Contracts with Customers - IFRS 15 (Cont'd)

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

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.

Statement of Cash Flows – IAS 7

IAS 7, *Statement of Cash Flows* ("IAS 7") - In January 2016, the IASB issued amendments to IAS 7 pursuant to which entities will be required to provide enhanced information about changes in their financial liabilities, including changes from cash flows and non-cash changes. IAS 7 amendments are effective for annual periods beginning on or after January 1, 2017. The Company is in the process of evaluating the impact of adopting these amendments to its consolidated financial statements.

Income Taxes – IAS 12

IAS 12, *Income Taxes* ("IAS 12") - In January 2016, the IASB issued amendments to IAS 12, which clarify guidance on the recognition of deferred tax assets related to unrealized losses resulting from debt instruments that are measured at their fair value. IAS 12 amendments are effective for annual periods beginning on or after January 1, 2017. The Company is in the process of evaluating the impact of adopting these amendments to its consolidated financial statements.

Share-based Payments – IFRS 2

IFRS 2, *Share-based Payments* ("IFRS 2") - In June 2016, the IASB issued final amendments to IFRS 2, which clarifies how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: (i) the effect of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share based payment that changes the classifications of the transaction from cash-settled to equity settled. The amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently assessing the impact of adopting these amendments on its consolidated financial statements.

(Expressed in Canadian dollars)

5. PROPERTY AND EQUIPMENT

	Leasehold Improvements	Furniture and Equipment	Computer Equipment and Software	Computer Equipment under Finance Lease	**Total**
Cost					
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
Additions	-	-	-	-	**-**
Balance at June 30, 2017	**$ 84,626**	**$ 275,630**	**$ 151,422**	**$ 318,795**	**$ 830,473**
Accumulated Depreciation					
Balance at June 30, 2015	$ 84,626	$145,702	$146,644	$232,609	$609,581
Amortization 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
Amortization for the year	-	22,132	1,195	21,546	44,873
Balance at June 30, 2017	**$ 84,626**	**$ 218,491**	**$ 150,228**	**$ 297,249**	**$ 750,594**
Carrying Amounts					
As at June 30, 2016	$ -	$ 79,271	$ 2,389	$ 43,092	$ 124,752
As at June 30, 2017	**$ -**	**$ 57,139**	**$ 1,194**	**$ 21,546**	**$ 79,879**

(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, 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
Additions	-	-	-	-	-	-
Balance at June 30, 2017	**$ 136,146**	**$ 908,726**	**$ 25,037**	**$ 264,810**	**$ 619,498**	**$ 1,954,217**
Accumulated Amortization and Impairment						
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
Amortization for year	1,000	-	-	-	17,504	18,504
Balance at June 30, 2017	**$ 134,284**	**$ 908,726**	**$ 25,037**	**$ 264,810**	**$ 610,753**	**$ 1,943,610**
Carrying Amounts						
As at June 30, 2016	$ 2,862	$ -	$ -	$ -	$ 26,249	$ 29,111
As at June 30, 2017	**$ 1,862**	**$ -**	**$ -**	**$ -**	**$ 8,745**	**$ 10,607**

(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 18). 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 RECEIVABLE

Prepaid expense includes contracts paid in advance by the Company, which as at June 30, 2017 amounted to $Nil (June 30, 2016 - $4,425). Sundry receivable includes an amount due from the Government of Canada in relation to Harmonized Sales Tax refunds, which as at June 30, 2017 amounted to $45,946 (June 30, 2016 - $75,348).

8. INVENTORY

Inventory is comprised of the following:

	2017	2016
Finished goods – STAR-ISMS®	**$ 35,000**	$ 70,000
Parts and components – STAR-ISMS®	**34,770**	30,340
Parts and components – STAR-MMI	**84,104**	53,907
	$ 153,874	$ 154,247

For the year ended June 30, 2017, the cost of inventory consumed in connection with revenue recognized was $65,692 (June 30, 2016 – $62,641).

For the year ended June 30, 2017, the write-down of inventory to net realizable value amounted to $41,188 (June 30, 2016 – $198,513). There were no reversals of previously recorded write-downs for the years ended June 30, 2017 and 2016.

9. CREDIT FACILITY

The Company utilizes a revolving line of credit ("LOC") from The Toronto-Dominion Bank to provide working capital flexibility. The LOC is available up to a maximum of $50,000, which has been fully utilized as at June 30, 2017 and 2016. The LOC is presented on a net basis in cash on the statement of financial position.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2017	2016
Trade payables	**$ 664,847**	$ 448,918
Accrued liabilities (a)	**649,015**	495,254
	$ 1,313,862	$ 944,172

(a) Included in accrued liabilities and other are payroll remittance arrears owing to the Canada Revenue Agency ("CRA") totaling $430,830 (June 30, 2016 - $358,054).

11. OTHER PAYABLES

Other payables include amounts due to a former employee of the Company with respect to unpaid compensation.

(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 and have no par value.
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. These shares have no par value and are redeemable at $1.00 per share at the option of the Company.
Unlimited	common shares, no par value.

Share Capital Activity

(a) 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 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 of the number of warrants acquired entitle the holder to purchase one additional common share of the Corporation at $0.06 per warrant exercised and the remaining one-half of the warrants entitle the holder to purchase one additional common share of the Corporation at $0.12 per warrant exercised. The warrants are exercisable during the two-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 payables 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 $60,000.

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. In addition, the Company has agreed to pay finder's fees in the amount of 128,000 units valued at $6,400.

(b) On April 13, 2016, the Company closed a non-brokered private placement, having issued 31,801,333 units of the Company 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 $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 payables 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, the Company has agreed to pay finder's fees in the amount of 1,667,580 units valued at $83,379.

(c) In June 2017, 8,795,000 warrants to purchase common shares of the Company were exercised at a price of $0.06 per common share, resulting in proceeds to the Company of $527,700.

(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	Weighted Average Exercise Price
Balance at June 30, 2015	**9,522,900**		**$0.13**
Options granted	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**
Options granted	1,620,000	$0.05	$0.05
Options expired	(2,795,000)	$0.06-$0.20	$0.11
Balance at June 30, 2017	**9,497,900**		**$0.09**
Exercisable at June 30, 2017	**9,222,900**		**$0.09**

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

	2017	2016
Expected dividend yield	**Nil**	Nil
Risk free interest rate	**0.74%**	0.71%
Expected volatility	**91%**	77%
Expected life	**4.36 years**	5.0 years
Share price	**$0.03**	$0.03

Expected volatility is based on the average historical volatility over the life of the option on the Company's share price.

On March 31, 2016, the Company granted 1,500,000 stock options with an exercise price of $0.05. The options expire on March 1, 2021 and will vest at the rate of 25% on each of the 3 months, 6 months, 9 months and 18 months anniversaries of the date of grant. The fair value of each of these options granted was determined to be $0.0157.

On April 1, 2016, the Company granted 2,470,000 stock options with an exercise price of $0.05. The options expire on March 1, 2021 and will vest in their entirety after 4 months from the date of grant. The fair value of each of these options granted was determined to be $0.0151.

(Expressed in Canadian dollars)

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

Stock-Based Compensation (Cont'd)

On October 21, 2016, the Company granted 1,620,000 stock options with an exercise price of $0.05. The options expire on March 1, 2021 and will vest in their entirety after 4 months from the date of grant. The fair value of each of these options granted was determined to be $0.0171.

As at June 30, 2017 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	200,000	200,000	$0.15	February 17, 2018
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
January 30, 2014	25,000	25,000	$0.07	December 15, 2018
March 31, 2016	3,870,000	3,595,000	$0.05	March 1, 2021
October 21, 2016	1,620,000	1,620,000	$0.05	March 1, 2021
	9,497,900	**9,222,900**		

The weighted average remaining contractual life of the outstanding options is 1.96 years (June 30, 2016 – 2.22 years).

Warrants

	Number	Weighted-Average Exercise Price	Expiry Date
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**	
Exercised	(8,795,000)	$0.06	September 11, 2017
Expired	(31,700,000)	$0.09	November 17, 2016-February 27, 2017
Balance at June 30, 2017	**125,344,971**	**$0.09**	

(Expressed in Canadian dollars)

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

Stock-Based Compensation (Cont'd)

Warrants

As at June 30, 2017 the Company had warrants issued and outstanding as follows:

Date of Issue	Warrants Issued	Exercise Price	Expiry Date
Sept 17, 2012	28,473,125	$0.12	Sept 17, 2017
May 15, 2013	10,030,000	$0.09	May 15, 2018
October 18, 2013	11,250,000	$0.08	October 18, 2018
April 15, 2014	27,959,933	$0.08	April 15, 2019
May 15, 2015	8,795,000	$0.12	Sept 11, 2017
July 20, 2015	5,000,000	$0.06-$0.12	July 20, 2017
August 18, 2015	368,000	$0.06-$0.12	August 18, 2017
April 15, 2016	33,468,913	$0.07	April 15, 2019
	125,344,971		

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

	2017	2016
Expected dividend yield	**-**	Nil
Risk free interest rate	**-**	0.42%-0.58%
Expected volatility	**-**	71%-83%
Expected life	**-**	2-3 years
Share price	**-**	$0.03-$0.04

Expected volatility is based on the average historical volatility over the life of the option on the Company's share price

Basic and diluted loss per common share based on net loss for the years ended June 30:

Numerator:	**2017**	2016
Net loss for the year	**$(2,052,437)**	$(3,458,772)
Denominator:		
Weighted average number of common shares outstanding - basic	**391,111,668**	363,539,721
Weighted average effect of diluted stock options and warrants	**-**	-
Weighted average number of common shares outstanding - diluted	**391,111,668**	363,539,721

Loss per common share based on net loss for the year:		
Basic	**$ (0.005)**	$(0.01)
Diluted	**$ (0.005)**	$(0.01)

(Expressed in Canadian dollars)

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

Maximum share dilution:

The following table presents the maximum number of shares that would be outstanding if all outstanding stock options and warrants were exercised as at June 30:

	2017	2016
Common shares outstanding	**399,689,805**	390,894,805
Warrants to purchase common shares	**125,344,971**	165,839,971
Stock options to purchase common shares	**9,497,900**	10,672,900
Fully diluted common shares outstanding	**534,532,676**	567,407,676

14. INCOME TAXES

(a) Income Tax Expense

Income tax expense differs from the amounts computed by applying the combined federal and provincial statutory tax rates as a result of the following:

	2017	2016
	$	$
Loss before income taxes	**(2,052,437)**	(3,458,772)
Statutory rate	**26.5%**	26.5%
Income tax provision at statutory rate	**(543,900)**	(916,600)
Effect of income of:		
Non-deductible expense	**23,500**	10,700
Share issuance costs	**-**	(2,200)
Non-capital losses expired	**-**	568,400
Adjustment to non-capital losses and other assets	**-**	63,600
Changes in deferred taxes not recognized	**520,400**	276,100
Provision for income taxes	**-**	-

(b) Significant components of the income tax expense for the years ended June 30 are as follows:

	2017	2016
	$	$
Current income tax expense	**-**	-
Deferred taxes		
Income taxes – origination and reversal of temporary differences	**(520,400)**	(276,100)
Relating to unrecognized temporary differences	**520,400**	276,100
Income tax expense	**-**	-

(Expressed in Canadian dollars)

14. INCOME TAXES (Cont'd)

(c) Deferred Income Taxes

The following deferred tax assets are not recognized in the consolidated financial statements due to the unpredictability of future income:

	2017	2016
	$	$
Non-capital losses carried forward	**6,197,300**	5,690,600
Equipment, intangibles and other assets	**536,900**	520,100
Share issue costs	**3,400**	6,500
	6,737,400	6,217,200

The Company estimates that it will have approximately $23,387,000 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**
2037	**1,912,000**
	23,387,000

15. MANAGEMENT OF CAPITAL

The Company considers its capital to include equity which amounts to a deficit of $4,513,370 at June 30, 2017 (June 30, 2016 – $3,037,749) and is 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, 2017. The Company manages capital by obtaining loans from private investors and through the issuance of common shares from private placements.

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), 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:

Currency risk is the risk that fluctuations in the rates of exchange on foreign currency would impact the Company's future cash flows. 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.

The Company is exposed to fluctuations in the value of the following financial instruments which are held in US dollars:

	2017	2016
Cash	**$ 30,465**	$ 2,424
Accounts receivable	**33,467**	4,100
Accounts payable	**(56,074)**	(60,102)
	$ 7,858	$ (53,578)

Based on the Company's net exposure to US denominated instruments at June 30, 2017 and 2016, a sensitivity analysis has not been presented as the impact to profit and loss would be immaterial.

(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) 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, 2017, approximately $Nil (June 30, 2016 - $4,100) of the Company's receivables were past due the average credit period of 90 days. As at June 30, 2017, the Company's allowance for doubtful accounts was $Nil (June 30, 2016 - $12,305) and bad debts expense amounted to $4,100 (June 30, 2016 - $12,305).

(Expressed in Canadian dollars)

16. FINANCIAL RISK MANAGEMENT (Cont'd)

(c) 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, 2017, the Company has current liabilities of $5,019,652 (June 30, 2016 - $2,104,363) due within 12 months and had a cash balance of $141,891 (June 30, 2016 – bank indebtedness of $59,464). As at June 30, 2017, the Company has a working capital deficiency of $4,603,856 (June 30, 2016 - $1,866,243) 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. See Note 1 for going concern.

There have been no changes for the Company's risk management policies for market risk, credit risk, and liquidity risk since June 30, 2016.

17. LOANS PAYABLE

	2017	**2016**
(a) Synchronicity Financial	**$ 294,243**	$ 246,102
(b) Karl Reichert	**345,062**	-
(c) 1286964 Ontario Inc.	**170,700**	-
	$ 810,005	$ 246,102

(a) On August 14, 2015, the Company entered into a loan agreement with a private investor to borrow $200,000. The loan is unsecured, bears interest at a rate of 18% per annum calculated monthly not in advance, and is due on demand. Interest accrued at June 30, 2017 was $94,243 (June 30, 2016 - $46,102). The loan was repaid in full when it was converted to common shares of the Company in July 2017 through a shares for debt exchange. See Note 23.

(b) During 2017, the Company entered into a loan agreement with a private investor to initially borrow $230,000. Additional funds were subsequently advanced prior to June 30, 2017 bringing the total outstanding principal owed to $330,000. Interest was charged at 8% per annum on the $230,000 advanced and 12% per annum on the remaining $100,000 advanced. The loan is unsecured with no fixed terms of repayment. Interest accrued at June 30, 2017 was $15,062 (June 30, 2016 - $Nil). The principal amount of the loan was repaid in full when it was converted to common shares of the Company in July 2017 through a shares for debt exchange. See Note 23.

(c) During 2017, the Company entered into a loan agreement with a private investor to borrow $170,700. The loan is unsecured, non-interest-bearing with no fixed terms of repayment. The loan was repaid in full when it was converted to common shares of the Company in July 2017 through a shares for debt exchange. See Note 23.

(Expressed in Canadian dollars)

18. 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 has an exclusive license agreement in place with a company owned and controlled by the CEO and Chairman of the Board regarding the use of patents related to the STAR-ISMS® technology. There were no license payments made or required to be made for the years ended June 30, 2017 and June 30, 2016.

The Company has an employment agreement in place with the 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 19(b)).

(a) Amounts due to related parties as at June 30, 2017 is $2,565,243 (June 30, 2016 - $1,949,364) and is comprised of the following:

		2017		2016
Due to Directors	**$**	**176,000**	$	115,396
Due to Committee Chairpersons		**26,000**		26,000
Due to Chief Executive Officer – Viraf Kapadia(i)		**2,030,310**		1,670,012
Due to Chief Operating Officer – Jean-Louis Larmor		**248,182**		126,677
Due to Chief Financial Officer – Randy Koroll		**84,751**		11,279
	$	**2,565,243**	$	1,949,364

(i) $1,882,426 (June 30, 2016 - $1,480,448) of the balance bears interest at prime + 2% per annum; $147,884 (June 30, 2016 - $19,564) of the balance is non-interest bearing. Interest accrued on the loan payable to the CEO for the year ended June 30, 2017 was $85,251 (June 30, 2016 - $77,353).

The Company has a loan agreement in place with the CEO dated June 30, 2015. The CEO has voluntarily waived his right to demand repayment on the amounts due to him by the Company prior to July 1, 2016.

All amounts are unsecured and have no fixed terms of repayment.

(b) 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, 2017 and June 30, 2016, the $21,700 is included in the interest-bearing component of the amount due to CEO (prime + 2% per annum).

(c) 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, 2017 and 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)

18. RELATED PARTY TRANSACTIONS (Cont'd)

(d) Included in accounts payable and accrued liabilities is $8,662 (June 30, 2016 - $23,403) in credit card debt that is guaranteed by the CEO and Chairman of the Board.

(e) As part of the private placement that closed on August 15, 2015, 690,000 units were issued to the CEO for the settlement of $34,500 and 80,000 units were issued to the CFO for the 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 the settlement of $61,515, 733,333 units were issued to the CFO for the settlement of $22,000 and 1,000,000 units were issued to the COO for the settlement of $30,000.

(f) The Company had an employment agreement in place with its CEO and Chairman of the Board regarding voluntary 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. For the year ended June 30, 2017, the CEO reverted back to being compensated by regular salary which was accrued during the year.

(g) Compensation to key management personnel, directors and committee chairpersons included in the consolidated statement of comprehensive loss was as follows for the years ended June 30:

	2017	2016
Chief Executive Officer	**$ 270,000**	$ 56,801
Chief Operating Officer	**186,000**	186,000
Chief Financial Officer	**86,520**	84,840
Board of Director fees	**57,000**	82,000
Committee Chairperson fees	**28,947**	47,197
Stock based compensation expense	**17,197**	18,913
	$ 645,394	$ 475,751

19. 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	2018	2019	2020	2021	Total
Premises	$144,000	$144,000	$ -	$ -	$288,000
Equipment	$ 3,000	$ -	$ -	$ -	$ 3,000

(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.

(Expressed in Canadian dollars)

20. SIGNIFICANT CUSTOMER

During the year ended June 30, 2017, 64% (June 30, 2016 – 97%) of the revenue was generated from one customer. During the year ended June 30, 2017, 64% (June 30, 2016 – 99%) of the revenue recognized during the year was generated from customers located in the United States. During the year ended June 30, 2017, 84% (June 30, 2016 – 96%) of revenue earned is from repairs and maintenance services on STAR-MMI flat panel displays units.

21. EXPENSE DISCLOSURES

General and Administrative	**2017**	2016
Accounting fees	**$ 86,520**	$ 84,840
Bank charges & interest	**42,203**	84,765
Board and committee fees	**85,946**	129,197
Insurance	**93,442**	116,823
Other	**120,007**	137,747
Professional fees	**70,817**	58,113
Rent	**192,722**	204,922
Wages	**552,649**	313,497
Total G&A expenses	**$ 1,244,306**	$ 1,129,904

Research and Development		
Amortization expense	**$ 63,377**	$ 244,458
IT costs	**10,500**	21,000
Research and development costs	**95,955**	64,680
Travel costs	**5,167**	10,700
Wages	**598,141**	740,469
Total R&D expenses	**$ 773,140**	$ 1,081,307

Marketing and Promotion		
Consultant costs	**$ 96,500**	$ 147,607
Investor relations	**43,665**	171,000
Wages	**-**	33,805
Travel costs	**6,963**	41,736
Total M&P expenses	**$ 147,128**	$ 394,148

22. RECOVERY OF FUNDS ADVANCED

In fiscal 2014, an advance of $40,000 made by the Company to Les technologies LUXELL Limited was written off as uncollectible. On October 1, 2016, the Company received $24,500 in full and final settlement of the loan advanced.

23. SEGMENTED INFORMATION

The Company operates in a single segment, consisting of the development, marketing, and sale of in-flight safety monitoring systems, whereby data from an aircraft can be transmitted to ground stations for the duration of a flight. This segment operates entirely in Canada. All revenues are earned by this segment, and all assets are held by this segment. Accordingly, no segmented information is presented in these consolidated financial statements.

24. SUBSEQUENT EVENTS

In July 2017, the Company applied to the OTC Markets Group to trade its common shares on the OTCQB. Trading is expected to be available before the end of the calendar year 2017.

In July 2017, the Company completed a Shares for Debt transaction in which outstanding indebtedness of $2,186,689 was exchanged for 27,333,615 common shares of the Company. The indebtedness includes $810,005 of loans payable (See Note 17), $672,000 of amounts due to related parties (See Note 18) and $704,684 of amounts included in accounts payables (See Note 10).

25. PRIOR YEAR COMPARATIVE FIGURES

The prior year comparative figures have been reclassified in the statement of loss and comprehensive loss to conform to current year presentation.