

Star Navigation Systems Group Ltd.

Consolidated Financial Statements

For the years ended June 30, 2018 and June 30, 2017

(Expressed in Canadian dollars)

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 statements of financial position as at June 30, 2018 and June 30, 2017, and the consolidated statements of loss and comprehensive loss, changes in deficiency, and cash flows for the years 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 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 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, 2018 and June 30, 2017, and its financial performance and its cash flows for the years 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 \$2,505,765 for the year ended June 30, 2018, has an accumulated deficit of \$57,144,020, and has negative working capital of \$2,715,645. These conditions, along with other matters set forth in note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

DNTW Toronto LLP

October 26, 2018
Toronto, Ontario

Chartered Professional Accountants
Licensed Public Accountants

Star Navigation Systems Group Ltd.
Consolidated Statements of Financial Position
As at June 30, 2018 and June 30, 2017
(Expressed in Canadian dollars)

	2018	2017
Assets		
Current		
Cash (Note 9)	\$ -	\$ 141,891
Accounts receivable	46,062	74,085
Inventory (Note 8)	186,804	153,874
Sales tax recoverable (Note 7)	126,640	45,946
	359,506	415,796
Property and equipment (Note 5)	57,675	79,879
Intangible assets (Note 6)	861	10,607
	\$ 418,042	\$ 506,282
Liabilities		
Current		
Bank indebtedness (Note 9)	\$ 59,956	\$ -
Accounts payable and accrued liabilities (Note 10)	660,499	1,313,862
Other payables (Note 11)	196,000	196,000
Loans payable (Note 17)	-	810,005
Deferred revenue	162,706	134,542
Due to related parties (Note 18)	1,995,990	2,565,243
	3,075,151	5,019,652
Shareholders' Deficiency		
Share capital (Note 12)	38,772,715	34,605,977
Shares to be issued (Note 24)	18,750	-
Contributed surplus (Note 13)	15,695,446	15,518,908
Deficit	(57,144,020)	(54,638,255)
	(2,657,109)	(4,513,370)
	\$ 418,042	\$ 506,282

Nature of Operations and Going Concern (Note 1)

Commitments and Contingencies (Note 19)

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, 2018 and June 30, 2017
(Expressed in Canadian dollars)

	2018	2017
Revenue (Note 20)	\$ 175,087	\$ 413,135
Expenses		
Cost of inventory consumed (Note 8)	52,435	65,692
General and administrative (Note 21)	1,154,600	1,244,306
Research and development (Note 21)	867,617	773,140
Marketing and promotion (Note 21)	541,080	147,128
Foreign exchange loss	9,413	13,197
Stock based compensation (Note 13)	-	49,116
Impairment of inventory (Note 8)	-	41,188
	2,625,145	2,333,767
Loss from Operations	(2,450,058)	(1,920,632)
Other Income (Expenses)		
Gain on settlement of debt (Note 10(b))	30,592	-
Recovery of funds advanced (Note 22)	-	24,500
Interest expense (Note 17 and 18)	(86,299)	(156,305)
	(55,707)	(131,805)
Net Loss and Comprehensive Loss for the year	\$ (2,505,765)	\$ (2,052,437)
Basic and diluted loss per common share	\$ (0.006)	\$ (0.005)
Weighted average number of common shares outstanding	442,970,901	391,111,668

Star Navigation Systems Group Ltd.
Consolidated Statements of Changes in Deficiency
As at June 30, 2018 and June 30, 2017
(Expressed in Canadian dollars)

	Number of common shares	Number of Series I preferred shares	Share capital	Contributed surplus	Deficit	Total
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(a))	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)
Issued for settlement of debt (Note 12(b))	27,333,615	-	2,186,690	-	-	2,186,690
Issued for cash on private placement (Note 12(c))	4,000,000	-	400,000	-	-	400,000
Issued as finder's fees on private placement (Note 12(c))	400,000	-	40,000	-	-	40,000
Issued for cash on private placement (Note 12(d))	3,766,667	-	226,000	-	-	226,000
Issued as finder's fees on private placement (Note 12(d))	376,667	-	22,600	-	-	22,600
Value allocated to warrants as part of private placement (Note 12(c) and 12(d))	-	-	(176,538)	176,538	-	-
Issued for services (Note 12(e))	629,571	-	44,070	-	-	44,070
Issued for cash on options exercised (Note 12(f))	4,190,000	-	235,500	-	-	235,500
Issued for cash on warrants exercised (Note 12(g))	14,768,671	-	1,251,016	-	-	1,251,016
Share issuance costs (Note 12(c) and 12(d))	-	-	(62,600)	-	-	(62,600)
Loss for the year	-	-	-	-	(2,505,765)	(2,505,765)
Balance at June 30, 2018	455,154,996	615,000	\$38,772,715	\$15,695,446	\$(57,144,020)	\$(2,675,859)

Star Navigation Systems Group Ltd.
Consolidated Statements of Cash Flows
As at June 30, 2018 and June 30, 2017
(Expressed in Canadian dollars)

	2018	2017
Cash provided by (used in)		
Operations		
Net loss	\$ (2,505,765)	\$ (2,052,437)
Items not affecting cash		
Depreciation	30,266	44,873
Amortization of intangible assets	9,746	18,504
Impairment of inventory	-	41,188
Stock-based compensation	-	49,116
Issuance of common shares for services	44,070	-
Accrued interest on loans	86,299	148,454
	(2,335,384)	(1,750,302)
Net changes in non-cash working capital		
Accounts receivable	28,023	(69,985)
Inventory	(32,930)	373
Sales tax recoverable	(80,694)	33,827
Accounts payable and accrued liabilities	(89,797)	369,690
Deferred revenue	28,164	67,247
	(2,482,618)	(1,349,150)
Investing		
Purchase of property and equipment	(8,062)	-
Financing		
Repayment of finance lease obligation	-	(8,523)
Proceeds from (repayment of) loans payable	(15,062)	270,700
Deposit on shares to be issued	18,750	-
Due to related parties	172,629	760,628
Issuance of common shares (net of share issuance costs)	2,112,516	527,700
	2,288,833	1,550,505
Net change in cash (bank indebtedness)	(201,847)	201,355
Cash (bank indebtedness), beginning of year	141,891	(59,464)
Cash (bank indebtedness), end of year	\$ (59,956)	\$ 141,891
Supplemental Disclosure		
Interest paid	\$ 4,467	\$ 35,337
Issuance of common share units for finder's fees	62,600	-
Issuance of common shares for services	44,070	-
Issuance of common shares for settlement of debt	2,186,690	-

Star Navigation Systems Group Ltd.
Notes to Consolidated Financial Statements
June 30, 2018
(Expressed in Canadian dollars)

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 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 \$2,505,765 for the year ended June 30, 2018 (June 30, 2017 – \$2,052,437), has an accumulated deficit of \$57,144,020 (June 30, 2017 - \$54,638,255) and has negative working capital of \$2,715,645 (June 30, 2017 – \$4,603,856). 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 financial position 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, 2018 were authorized for issue by the Board of Directors on October 26, 2018.

(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 property and equipment and intangible assets:

Property and equipment 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. 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. Parts and components inventory is valued at the lower of cost and replacement cost. Finished goods are 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, 2018, therefore no amortization was taken in 2018.

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, 2018, \$137,827 (2017 - \$336,698) 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.

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.

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:

<u>Financial Instrument</u>	<u>Classification</u>
Cash	FVTPL
Accounts receivable	Loans and receivables
Bank indebtedness	FVTPL
Accounts payable and accrued liabilities	Other financial liabilities
Loans payable	Other financial liabilities
Due to related parties	Other financial liabilities
Other payables	Other financial liabilities

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial Instruments (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 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.

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.

Changes in Accounting Policies

Effective July 1, 2017, the Company has adopted amendments to IAS 7, *Statement of Cash Flows* ("IAS 7"). 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, 2018.

Effective July 1, 2017, the Company has adopted amendments to IAS 12, *Income Taxes* ("IAS 12"). 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, 2018.

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, 2018 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: Disclosure – IFRS 7

IFRS 7, *Financial instruments: Disclosure* ("IFRS 7"), was amended to require additional disclosures on transition from IAS 39 to IFRS 9. IFRS 7 is effective on adoption of IFRS 9, which is effective for annual periods commencing on or after January 1, 2018. The Company intends to adopt the amendments to IFRS 7 on July 1, 2018 and does not expect the implementation will result in a significant effect to the consolidated financial statements.

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

Financial Instruments - IFRS 9

IFRS 9, *Financial Instruments* ("IFRS 9"), was issued by the International Accounting Standards Board ("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. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held for trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative hosts not within the scope of the standard. The Company will adopt IFRS 9 effective July 1, 2018. The Company has completed its assessment of the impact of this new standard and expects no significant changes as a result of this or elsewhere in the application of the new standard.

Revenue from Contracts with Customers – IFRS 15

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), was issued by the IASB in May 2014 and specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. On April 12, 2016, the IASB published final clarifications to IFRS 15 with respect to identifying performance obligations, principal versus agent considerations, and licensing. The Company will adopt IFRS 15 effective July 1, 2018. The Company has completed its assessment of the impact of this new standard and has noted beyond the required additional disclosures, there exist no material changes to the consolidated financial statements or required retroactive adjustments.

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.

Share-based Payments – IFRS 2

IFRS 2, *Share-based Payments* ("IFRS 2"), - In June 2017, 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 intends to adopt the amendments to IFRS 2 on July 1, 2018 and does not expect the implementation will result in a significant effect to the consolidated financial statements.

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5. PROPERTY AND EQUIPMENT

	Leasehold Improvements	Furniture and Equipment	Computer Equipment and Software	Computer Equipment under Finance Lease	Total
Cost					
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
Additions	-	3,192	4,870	-	8,062
Balance at June 30, 2018	\$ 84,626	\$ 278,822	\$ 156,292	\$ 318,795	\$ 838,535
Accumulated Depreciation					
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
Amortization for the year	-	16,461	3,032	10,773	30,266
Balance at June 30, 2018	\$ 84,626	\$ 234,952	\$ 153,260	\$ 308,022	\$ 780,860
Carrying Amounts					
As at June 30, 2017	\$ -	\$ 57,139	\$ 1,194	\$ 21,546	\$ 79,879
As at June 30, 2018	\$ -	\$ 43,870	\$ 3,032	\$ 10,773	\$ 57,675

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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, 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
Additions	-	-	-	-	-	-
Balance at June 30, 2018	\$ 136,146	\$ 908,726	\$ 25,037	\$ 264,810	\$ 619,498	\$ 1,954,217
Accumulated Amortization and Impairment						
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
Impairment	-	-	-	-	-	-
Balance at June 30, 2017	\$ 134,284	\$ 908,726	\$ 25,037	\$ 264,810	\$ 610,753	\$ 1,943,610
Amortization for year	1,001	-	-	-	8,745	9,746
Balance at June 30, 2018	\$ 135,285	\$ 908,726	\$ 25,037	\$ 264,810	\$ 619,498	\$ 1,953,356
Carrying Amounts						
As at June 30, 2017	\$ 1,862	\$ -	\$ -	\$ -	\$ 8,745	\$ 10,607
As at June 30, 2018	\$ 861	\$ -	\$ -	\$ -	\$ -	\$ 861

- (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.

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7. SALES TAX RECOVERABLE

Sales tax recoverable is due from the Government of Canada in relation to Harmonized Sales Tax refunds, which as at June 30, 2018 amounted to \$126,640 (June 30, 2017 - \$45,946).

8. INVENTORY

Inventory is comprised of the following:

	2018	2017
Finished goods – STAR-ISMS®	\$ 85,000	\$ 35,000
Parts and components – STAR-ISMS®	50,776	76,602
Parts and components – STAR-MMI	51,028	42,272
	\$ 186,804	\$ 153,874

For the year ended June 30, 2018, the cost of inventory consumed in connection with revenue recognized was \$52,435 (June 30, 2017 – \$65,692).

For the year ended June 30, 2018, the write-down of inventory to net realizable value amounted to \$Nil (June 30, 2017 – \$41,188). There were no reversals of previously recorded write-downs for the years ended June 30, 2018 and 2017.

9. BANK 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, 2018 and 2017. The LOC is presented on a net basis in cash on the statements of financial position.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2018	2017
Trade payables	\$ 270,671	\$ 664,847
Accrued liabilities ^(a)	389,828	649,015
	\$ 660,499	\$ 1,313,862

(a) Included in accrued liabilities are payroll remittance arrears owing to the Canada Revenue Agency (“CRA”) totaling \$221,068 (June 30, 2017 - \$430,830).

(b) During the year ended June 30, 2018, the Company settled trade payables with a fair value of \$82,592 for cash payments totaling \$52,000, resulting in a gain on settlement of debt of \$30,592.

11. OTHER PAYABLES

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

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) 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.
- (b) In July 2017, the Company issued 27,335,615 common shares of the Company at a price of \$0.08 per share in settlement of \$563,566 of trade payables, \$794,943 of loans payable and \$828,181 of amounts due to related parties being the fair market value of the debt at the time of settlement.
- (c) On January 11, 2018, the Company closed a non-brokered private placement, having issued 4,000,000 units of the Company (the "Units") at a price per Unit of \$0.10 for gross proceeds of \$400,000. Each Unit consists of one common share in the capital of the Company and one warrant. Each warrant entitles the holder to purchase one (1) additional common share of the Company at fifteen (\$0.15) cents per warrant exercised. The warrants are exercisable during the one (1) year period from the date of issue. In addition, the Company has agreed to pay finder's fees in the amount of 400,000 Units valued at \$40,000.
- (d) On April 27, 2018, the Company closed a non-brokered private placement, having issued 3,766,667 units of the Company (the "Units") at a price per Unit of \$0.06 for gross proceeds of \$226,000. Each Unit consists of one common share in the capital of the Company and one warrant. Each warrant entitles the holder to purchase one (1) additional common share of the Company at seven (\$0.07) cents per warrant exercised. The warrants are exercisable during the one (1) year period from the date of issue. In addition, the Company has agreed to pay finder's fees in the amount of 376,667 Units valued at \$22,600.
- (e) During the year ended June 30, 2018, the Company issued a total of 629,571 common shares valued at \$44,070, to a consultant of the Company for services rendered.
- (f) During the year ended June 30, 2018, 4,190,000 options to purchase common shares of the Company were exercised at prices of \$0.05-\$0.10 per common share, resulting in proceeds to the Company of \$235,500.
- (g) During the year ended June 30, 2018, 14,768,671 warrants to purchase common shares of the Company were exercised at prices of \$0.06-\$0.12 per common share, resulting in proceeds to the Company of \$1,251,016.

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, 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
Options exercised	(4,190,000)	\$0.05-\$0.07	\$0.06
Options expired	(2,412,900)	\$0.07-\$0.15	\$0.13
Balance at June 30, 2018	2,895,000		\$0.05
Exercisable at June 30, 2018	2,895,000		\$0.05

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

	2018	2017
Expected dividend yield	-	Nil
Risk free interest rate	-	0.74%
Expected volatility	-	91%
Expected life	-	4.36 years
Share price	-	\$0.03

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

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 grant date. The fair value of each of these options was determined to be \$0.0171.

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

Stock-Based Compensation (Cont'd)

As at June 30, 2018 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
January 30, 2014	25,000	25,000	\$0.07	December 15, 2018
March 31, 2016	1,850,000	1,850,000	\$0.05	March 1, 2021
October 21, 2016	1,020,000	1,020,000	\$0.05	March 1, 2021
	2,895,000	2,895,000		

The weighted average remaining contractual life of the outstanding options is 1.07 years (June 30, 2017 – 1.96 years).

Warrants

	Number	Weighted-Average Exercise Price	Expiry Date
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	
Exercised	(14,768,671)	\$0.03	July 25, 2017- April 15, 2019
Issued	8,543,334	\$0.11	January 11, 2019 - April 27, 2019
Expired	(44,037,458)	\$0.11	July 25, 2017- May 15, 2018
Balance at June 30, 2018	75,082,176	\$0.01	

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

Warrants (Cont'd)

As at June 30, 2018, the Company had warrants issued and outstanding as follows:

Date of Issue	Warrants Issued	Exercise Price	Expiry Date
October 18, 2013	11,250,000	\$0.08	October 18, 2018
April 15, 2014	23,146,596	\$0.08	April 15, 2019
April 15, 2016	32,142,246	\$0.07	April 15, 2019
January 11, 2018	4,400,000	\$0.15	January 11, 2019
April 27, 2018	4,143,334	\$0.07	April 27, 2019
	75,082,176		

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

	2018	2017
Expected dividend yield	Nil	-
Risk free interest rate	1.73-1.90%	-
Expected volatility	126-149%	-
Expected life	1.0 years	-
Share price	\$0.055-\$0.085	-

Expected volatility is based on historical data.

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

Numerator:	2018	2017
Net loss for the year	\$(2,505,765)	\$(2,052,437)
Denominator:		
Weighted average number of common shares outstanding - basic	442,970,901	391,111,668
Weighted average effect of diluted stock options and warrants	-	-
Weighted average number of common shares outstanding - diluted	442,970,901	391,111,668
Loss per common share based on net loss for the year:		
Basic	\$ (0.006)	\$(0.005)
Diluted	\$ (0.006)	\$(0.005)

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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:

	2018	2017
Common shares outstanding	455,154,996	399,689,805
Warrants to purchase common shares	75,082,176	125,344,971
Stock options to purchase common shares	2,895,000	9,497,900
Fully diluted common shares outstanding	533,132,172	534,532,676

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:

	2018	2017
	\$	\$
Loss before income taxes	(2,505,765)	(2,052,437)
Statutory rate	26.5%	26.5%
Income tax provision at statutory rate	(664,000)	(543,900)
Effect of income of:		
Non-deductible expense	1,200	23,500
Share issuance costs	(16,600)	-
Non-capital losses expired	-	-
Adjustment to non-capital losses and other assets	-	-
Changes in deferred taxes not recognized	679,400	520,400
Provision for income taxes	-	-

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

	2018	2017
	\$	\$
Current income tax expense	-	-
Deferred taxes		
Income taxes – origination and reversal of temporary differences	(679,400)	(520,400)
Relating to unrecognized temporary differences	679,400	520,400
Share issuance costs	-	-
Income tax expense	-	-

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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:

	2018	2017
	\$	\$
Non-capital losses carried forward	6,843,100	6,197,300
Equipment, intangibles and other assets	708,000	536,900
Share issue costs	14,800	3,400
	7,565,900	6,737,400

The Company estimates that it will have approximately \$25,824,000 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
2038	2,437,000
	25,824,000

15. MANAGEMENT OF CAPITAL

The Company considers its capital to include all components of equity which amounts to a deficit of \$2,657,109 at June 30, 2018 (June 30, 2017 – \$4,513,370) 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, 2018. The Company manages capital by obtaining loans from private investors and through the issuance of 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), 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:

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:

	2018	2017
Cash	\$ 829	\$ 30,465
Accounts receivable	26,562	33,467
Accounts payable	(56,074)	(56,074)
	\$ (28,683)	\$ 7,858

Based on the Company's net exposure to US denominated instruments at June 30, 2018 and June 30, 2017, 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 a few customers. As at June 30, 2018, approximately \$6,726 (June 30, 2017 - \$Nil) of the Company's receivables were past due the average credit period of 90 days. As at June 30, 2018, the Company's allowance for doubtful accounts was \$Nil (June 30, 2017 - \$Nil) and bad debts expense amounted to a recovery of \$2,515 (June 30, 2017 - expense of \$4,100).

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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, 2018, the Company has current liabilities of \$3,075,151 (June 30, 2017 - \$5,019,652) due within 12 months and bank indebtedness of \$59,956 (June 30, 2017 - cash of \$141,891). As at June 30, 2018, the Company has a working capital deficiency of \$2,715,645 (June 30, 2017 - \$4,603,856) 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, 2017.

17. LOANS PAYABLE

	2018	2017
(a) Synchronicity Financial	\$ -	\$ 294,243
(b) Karl Reichert	-	345,062
(c) 1286964 Ontario Inc.	-	170,700
Balance at June 30, 2018	\$ -	\$ 810,005

(a) During the year ended June 30, 2016, the Company entered into a loan agreement with a private investor to borrow \$200,000. The loan was unsecured, bore interest a rate of 18% per annum calculated monthly not in advance, and was due on demand. Accrued interest on the loan at June 30, 2018 was \$Nil (June 30, 2017 - \$94,243). The loan was repaid in full when it was converted to common shares of the Company in July 2017 in a share for debt exchange. See Note 12(b).

(b) During the year ended June 30, 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 was unsecured with no fixed terms of repayment. Accrued interest on the loan at June 30, 2018 was \$Nil (June 30, 2017 - \$15,062). The loan was repaid in full, including accrued interest, when it was converted to common shares of the Company in July 2017 in a share for debt exchange. See Note 12(b).

(c) During the year ended June 30, 2017, the Company entered into a loan agreement with a private investor to borrow \$170,700. The loan was 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 in a share for debt exchange. See Note 12(b).

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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 its 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, 2018 and June 30, 2017.

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 at June 30, 2018 is \$1,995,990 (June 30, 2017 - \$2,565,243) and is comprised of the following:

	2018	2017
Due to Directors	\$ 48,000	\$ 176,000
Due to Committee Chairpersons	12,000	26,000
Due to Chief Executive Officer – Viraf Kapadia ⁽ⁱ⁾	1,706,546	2,030,309
Due to Chief Operating Officer – Jean-Louis Larmor	224,924	248,182
Due to Chief Financial Officer – Randy Koroll	4,520	84,752
	\$ 1,995,990	\$ 2,565,243

- (i) \$1,644,663 (June 30, 2017 - \$1,882,426) of the balance bears interest at 5% per annum; \$61,883 (June 30, 2017 - \$147,883) of the balance is non-interest bearing. Interest accrued on the loan payable to the CEO for the year ended June 30, 2018 was \$86,299 (June 30, 2017 – \$85,251).

All amounts are unsecured and are due on demand.

- (b) The Company also owes \$7,550 (June 30, 2017 - \$8,662) in credit card debt that is guaranteed by the CEO and Chairman of the Board in accounts payables and accrued liabilities.
- (c) As part of the common shares issued by the Company on the settlement of debt in July 2017 (Note 12(b)), 6,452,262 common shares were issued to the CEO for settlement of debt of \$516,181, 1,500,000 common shares were issued to the COO for settlement of debt of \$120,000, 913,337 common shares were issued to the CFO for settlement of debt of \$84,752 and 2,400,000 common shares were issued to directors and a former director for settlement of debt of \$192,000.

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18. RELATED PARTY TRANSACTIONS (Cont'd)

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

	2018	2017
Chief Executive Officer	\$ 236,250	\$ 270,000
Chief Operating Officer	186,000	186,000
Chief Financial Officer	26,650	86,520
Board of Director fees	48,000	57,000
Committee Chairperson fees	21,000	28,947
Stock based compensation expense	-	17,197
Total at June 30, 2018	\$ 517,900	\$ 645,664

19. COMMITMENTS AND CONTINGENCIES

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

Item	2019	2020	2021	2022	2023	Total
Premises	\$ 99,000	\$130,500	\$ 167,188	\$194,346	\$196,066	\$787,100

- (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.

20. SIGNIFICANT CUSTOMER

During the year ended June 30, 2018, 44% (June 30, 2017 – 64%) of the revenue was generated from one customer. During the year ended June 30, 2018, 44% (June 30, 2017 – 64%) of the revenue recognized during the year was generated from customers located in Japan (June 30, 2017 – United States). During the year ended June 30, 2018, 79% (June 30, 2017 – 84%) of revenue earned is from repairs and maintenance services on STAR-MMI flat panel displays units.

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21. EXPENSE DISCLOSURES

General and Administrative	2018	2017
Accounting fees	\$ 26,650	\$ 86,520
Bank charges and interest	10,242	42,203
Board and committee fees	69,000	85,946
Insurance	66,106	93,442
Office and general	99,679	92,687
Filing and other fees	79,013	27,320
Professional fees	36,759	70,817
Rent	144,000	192,722
Wages	623,151	552,649
Total G&A expenses	\$ 1,154,600	\$ 1,244,306
Research and Development		
Amortization expense	\$ 40,012	\$ 63,377
IT costs	-	10,500
Research and development costs	207,379	95,955
Travel costs	10,144	5,167
Wages	610,082	598,141
Total R&D expenses	\$ 867,617	\$ 773,140
Marketing and Promotion		
Consultant costs	\$ 384,315	\$ 96,500
Investor relations	104,070	43,665
Travel costs	52,695	6,963
Total M&P expenses	\$ 541,080	\$ 147,128

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 on full and final settlement of the amount advanced.

23. SEGMENT 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

On July 10, 2018, 375,000 options to purchase common shares of the Company were exercised at a price of \$0.05 per common share, resulting in proceeds to the Company of \$18,750. This amount was collected prior to June 30, 2018 and is presented as shares to be issued on the statement of financial positions.

On September 6, 2018, the Company announced that it had closed a non-brokered private placement issuing 46,708,000 units of the Company (the "Units") at a price per Unit of \$0.05 for gross proceeds of \$2,105,000. Each Unit consists of one common share in the capital of the Company and one warrant. One warrant entitles the holder to purchase one (1) additional common share of the Corporation at seven (\$0.07) cents per warrant exercised. The warrants are exercisable during the one (1) year period from the date of issue. In addition, the Company has agreed to pay finder's fees in the amount of ten (10%) percent of gross proceeds in Units.

On September 10, 2018, the Company announced that pursuant to its 2006 Incentive Stock Option Plan, as amended, the Board of Directors of the Company approved the grant of incentive stock options to purchase 1,500,000 common shares in the capital stock of the Company to certain employees and consultants of the Company (the "Grantees"). The options expire August 31, 2020 and are exercisable at \$0.075 per share for 1,000,000 of them, at \$0.10 for 250,000, and at \$0.15 on the remaining 250,000 and are subject to a four-month statutory hold from the date of issue.

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.