Star Navigation Systems Group Ltd.
(A development stage company)

Consolidated Financial Statements

For the Years Ended June 30, 2011 and 2010

Collins Barrow
Chartered Accountants

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Star Navigation Systems Group Ltd.

We have audited the accompanying consolidated financial statements of Star Navigation Systems Group Ltd., which comprise the consolidated balance sheets as at June 30, 2011 and 2010 and the consolidated statements of operations and deficit and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, 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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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, these consolidated financial statements present fairly, in all material respects, the financial position of Star Navigation Systems Group Ltd. and its subsidiaries as at June 30, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Collins Barrow Toronto LLP

Licensed Public Accountants
Chartered Accountants

October 28, 2011
Toronto, Ontario

Star Navigation Systems Group Ltd.
(A development stage company)
Consolidated Balance Sheets
As at June 30, 2011 and 2010

		2011		2010
Assets				
Current				
Cash and cash equivalents	**$**	**1,721,524**	$	2,022,926
Accounts receivable (Note 13(c))		**69,921**		150,189
Prepaid expenses and sundry receivables		**404,356**		88,681
		2,195,801		2,261,796
Equipment (Note 3)		**530,660**		247,093
Licenses (Note 4)		**7,863**		8,863
	$	**2,734,324**	$	2,517,752
Liabilities				
Current				
Accounts payable and accrued liabilities (Note 10)	**$**	**538,221**	$	365,721
Current portion of capital lease obligation (Note 5)		**1,555**		2,534
Due to related parties (Note 6)		**635,957**		1,709,782
Other payables (Note 7)		**196,000**		196,000
Deferred revenue		**10,000**		
		1,381,733		2,274,037
Due to related parties (Note 6)		**1,000,000**		-
Long term portion of accounts payable and accrued liabilities (Note 10)		**-**		13,423
Capital lease obligation (Note 5)		**-**		1,555
		2,381,733		2,289,015
Shareholders' Equity				
Capital stock (Note 8)		**24,706,373**		22,006,725
Contributed surplus (Note 9)		**8,680,980**		5,286,155
Deficit		**(33,034,762)**		(27,064,143)
		352,591		228,737
	$	**2,734,324**	$	2,517,752

Nature of Operations(Note 1)

Commitments and Contingencies (Note 14)

Subsequent Events (Note 17)

Approved by the Board **"Viraf S. Kapadia"** Director **(Signed)** **"Dale F. Sparks"** Director **(Signed)**

See accompanying notes

Star Navigation Systems Group Ltd.
(A development stage company)
Consolidated Statements of Operations and Deficit
Years Ended June 30, 2011 and 2010

	2011	2010
Revenue (Note 16)	**$ 98,591**	$ 153,849
Expenses		
Cost of sales	**78,979**	138,640
General and administrative	**953,091**	905,547
Research and development	**717,807**	488,558
Marketing and promotion	**413,339**	438,127
Professional fees	**646,050**	455,179
Stock-based compensation (Note 9)	**1,249,757**	1,127,650
Foreign exchange (gain) loss	**83,441**	(25,128)
Amortization (Note 3)	**46,707**	37,097
	4,189,171	3,565,670
Loss before the undernoted items and income taxes	**(4,090,280)**	(3,411,821)
Other income (expenses)		
Write-down of inventory (Note 2)	**-**	(96,195)
Gain on settlement of debt (Note 10)	**-**	159,934
Lawsuit settlement (Note 10)	**(17,215)**	(15,000)
	(17,215)	48,739
Net loss	**(4,107,795)**	(3,363,082)
Deficit, beginning of year	**(27,064,143)**	(23,372,475)
Modification of warrants (Note 9)	**(1,862,824)**	(328,586)
Deficit, end of year	**$(33,034,762)**	$(27,064,143)

Loss per share		
Basic and diluted	**$ (0.02)**	$ (0.02)

Weighted average number of common shares outstanding		
Basic and diluted	**179,578,192**	141,414,325

Star Navigation Systems Group Ltd.
(A development stage company)
Consolidated Statements of Cash Flows
Years Ended June 30, 2011 and 2010

	2011	2010
Cash provided by (used in)		
Operations		
Net loss	**$ (4,107,795)**	$ (3,363,082)
Items not affecting cash		
Amortization	**46,707**	37,097
Write-down of inventory	**-**	96,195
Gain on settlement of debt	**-**	(159,934)
Stock based compensation	**1,249,757**	1,127,650
Expenses accrued as liabilities to related parties	**-**	416,000
	(2,811,331)	(1,846,074)
Net changes in non-cash working capital		
Accounts receivable	**80,268**	(108,500)
Prepaid expenses and sundry receivables	**(315,675)**	2,097
Accounts payable and accrued liabilities	**159,077**	(207,313)
Due to related parties	**50,250**	(245,615)
Deferred revenue	**10,000**	-
	(2,827,411)	(2,405,405)
Investing		
Equipment additions	**(329,274)**	(218,317)
License additions	**-**	(9,210)
	(329,274)	(227,527)
Financing		
Capital lease obligation	**(2,534)**	(1,830)
Deposit on share subscription	**-**	(59,500)
Issuance of capital stock	**2,857,817**	4,739,331
Other long term payables	**-**	(29,375)
	2,855,283	4,648,626
Net change in cash and cash equivalents	**(301,402)**	2,015,694
Cash and cash equivalents, beginning of year	**2,022,926**	7,232
Cash and cash equivalents, end of year	**$ 1,721,524**	$ 2,022,926

Supplemental Disclosure

Interest paid	**$ 10,819**	$ 8,740
Issuance of common shares for finders' fees and services (Note 8)	**$ 110,023**	$ 314,930
Issuance of common shares on settlement of debt (Note 8,10)	**$ -**	$ 384,434

See accompanying notes

1. NATURE OF OPERATIONS

Star Navigation Systems Group Ltd. ("the Company") is in the development stage as defined by the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 11, devoting substantially all of its activity to the development, marketing and promotion of an In-flight Safety Monitoring System ("STAR-ISMS® "), whereby data from an aircraft can be transmitted to ground stations for the duration of a flight. Certain technology used for this system as well as patents granted have been licensed to the Company by a director and a former director of the Company who undertook the initial research and development (Note 4). For the period from inception to June 30, 2011, the Company has incurred research and development expenses relating to the STAR-ISMS® project of approximately $8,157,000 and earned revenues of approximately $912,000.

The Company's ability to continue operations, meet its obligations and realize its investment in development costs is dependent on the continued support from investors and related parties to finance sales to customers, continue the project development, obtain the necessary certifications from regulatory agencies as well as successfully marketing the STAR-ISMS® for gain.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and their basis of application is consistent with that of the previous year. Outlined below are those policies considered particularly significant.

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned operating subsidiaries, Star Navigation Systems Inc. ("Star"), Star Navigation Systems (Quebec) Inc. and Star Navigation Systems (U.K) Ltd. 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.

Cash and Cash Equivalents

Cash and cash equivalents include bank deposits such as guaranteed investment certificates, with maturities of less than three months.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Inventory

Inventory consists of third party supplied hardware for STAR-ISMS® and is recorded at the lower of cost and net realizable value where cost is determined on a specific identification basis.

The write-down of inventory is comprised of the impairments recorded against inventory. The Company records a valuation write-down of inventory by comparing inventory cost to its net realizable value. This process requires the use of estimates and assumptions related to future market demand, costs and prices.

Equipment and Amortization

Equipment is recorded at cost. Rates and bases of amortization applied to equipment over their estimated useful lives are as follows:

Leasehold improvements	- 5 years, straight-line
Aircraft	- 25% per annum, declining balance
Furniture and equipment	- 20%, per annum, declining balance
Computer equipment and software	- 50% per annum, declining balance
Vehicles	- 30% per annum, declining balance
Production equipment	- 3 years, straight-line

Licenses

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 has been made. Ongoing costs represent out-of-pocket costs for various patent applications and processing. Costs directly attributable to the License 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. As the first country patent was granted in 2005, the Company commenced the amortization of these costs to operations from the time of acquisition (Note 4).

Impairment of Long-lived Assets

Long-lived assets held for use are reviewed for impairment when events or circumstances indicate that its carrying value may not be recoverable. When the carrying value is not expected to be recoverable from future cash flows on an undiscounted basis and the carrying value exceeds the asset's fair value, an impairment loss is recorded.

Leases

Leases are classified as operating leases when the benefits and risk of ownership have not been transferred to the Company. Assets held under capital leases, which are leases where substantially all the risks and rewards of ownership of the assets have passed to the Company are capitalized in the consolidated balance sheet at the present value of minimum lease payments payable during the lease term and are amortized over their estimated useful lives.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue Recognition

The Company recognizes revenue at the time persuasive evidence of an arrangement exists, price is fixed and determinable, the delivery has occurred and collectability is reasonably assured. Revenues from the sale of the Company's STAR-ISMS® are recognized when the installation of the system is complete, defined to be when the related equipment has been installed in a customer's aircraft or transportation vehicle, tested and accepted by the customer, and has received the necessary regulatory approvals. Installations are generally conducted by customers under the Company's management and supervision. In the event, the customer chooses to manage the installation without the Company's supervision, revenues are recognized when the product is delivered to the customer.

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 allocates the total consideration to the various elements based on the residual method of allocation. Under the residual method, the amount of consideration allocated to the delivered item equals the total arrangement consideration less the fair value of the undelivered item. The fair value of the undelivered item is based on vendor specific objective evidence.

Research and Development Expenses

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. Development costs are expensed as incurred except for those which meet the criteria for deferral, in which case, the costs are capitalized and amortized to operations over the estimated period of benefit. No costs have been deferred during any of the periods presented.

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 using the weighted average number of common shares outstanding. The treasury stock method is used to compute the dilutive effect of options, warrants and similar instruments.

2. 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 are measured at the fair value of the consideration received or the fair value of the equity instruments issued or liabilities incurred, whichever is more reliably measurable. Stock-based compensation is charged to operations over the 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.

Share Issuance Costs

Costs incurred in connection with the issuance of capital stock are deferred and netted against the proceeds received.

Income Taxes

The Company accounts for income taxes using the asset and liability method whereby future income tax assets and liabilities are recorded based on temporary differences between the financial reporting and tax bases of the Company's assets and liabilities. The future benefits of income tax assets, including unused tax losses, are recognized subject to a valuation allowance, to the extent that it is more likely than not that such losses will be ultimately realized. These future income tax assets and liabilities are measured using substantially enacted tax rates and laws that are expected to apply when the tax assets or liabilities are to be settled or realized.

Measurement Uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of expenses during the reporting period. Significant areas requiring the use of management judgment include the fair value of goods and services provided to the Company for non-monetary consideration, including the stated value of capital stock issued as such consideration, estimating the useful lives of equipment, the license and patents as well as assessing the recoverability of inventories and long-lived assets, determination of future income taxes and estimating certain commitments and contingencies.

The Black-Scholes option valuation model used by the Company to determine fair values was developed for use in estimating the fair value of freely traded options. In addition, this model requires the input of highly subjective assumptions including future stock price volatility and expected time until exercise.

Accordingly, the Company's measurements are based upon management's best estimates based on existing knowledge, which reflect the Company's planned courses of action and probable economic conditions; however, it is possible that actual events may be different from those anticipated. Accordingly, such differences could impact the carrying values of assets as well as future results of operations and cash flows.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial Instruments

All financial instruments are classified into one of the following five categories: held-for-trading assets or liabilities, held-to-maturity investments, loans and receivables, available-for-sale financial assets, and other financial liabilities. Financial instruments are recorded initially at fair value and subsequently based on their classification. Held-for-trading financial instruments are measured at fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in accumulated other comprehensive income until the instruments are derecognized or impaired. Loans and receivables, investments held-to-maturity and other financial liabilities are measured at amortized cost using the effective interest method.

The Company has classified its financial instruments as follows:

Financial Instrument	Classification
Cash and cash equivalents	Held for trading
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Due to related parties	Other liabilities
Other payables	Other liabilities
Capital lease obligation	Other liabilities

Comprehensive income consists of net earnings and other comprehensive income. Other comprehensive income comprises revenues, expenses, gains and losses that, in accordance with GAAP, are recognized in comprehensive income but excluded from net earnings. Amounts included in accumulated other comprehensive income are reclassified to net earnings when realized.

The Company had no other comprehensive income or loss transactions during the years ended June 30, 2011 and 2010. Accordingly a statement of comprehensive income has not been presented.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Fair Value Hierarchy

The following summarizes the methods and assumptions used in estimating the fair value of the Company's financial instruments where measurement is required. The fair value of financial instruments approximates their carrying amounts due to the relatively short period to maturity. These include cash and cash equivalents. Fair value amounts represent point-in-time estimates and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and are a matter of significant judgement. The methods and assumptions used to develop fair value measurements, for those financial instruments where fair value is recognized in the balance sheet, have been prioritized into three levels as per the fair value hierarchy included in GAAP. Level one includes quoted prices (unadjusted) in active markets for identical assets or liabilities. Level two includes inputs that are observable other than quoted prices included in level one. Level three includes inputs that are not based on observable market data.

June 30, 2011	**Level One**	**Level Two**	**Level Three**
Cash and cash equivalents	**$ 1,721,524**	**$ -**	**$ -**

June 30, 2010	Level One	Level Two	Level Three
Cash and cash equivalents	$ 2,022,926	$ -	$ -

Recent Accounting Pronouncements Issued and Not Yet Applied

(a) In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards for public companies are required to converge with International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011, with comparative figures presented on the same basis. The Company has commenced the process to determine the impact of the transition to IFRS on its reporting process. There will be an ongoing process as the International Accounting Standards Board and the AcSB issue new standards and recommendations.

3. EQUIPMENT

2011		**Cost**	**Accumulated Amortization**	**Net**
Leasehold improvements	**$**	**83,714 $**	**28,883 $**	**54,831**
Aircraft		**50,951**	**6,369**	**44,582**
Furniture and equipment		**69,180**	**59,514**	**9,666**
Computer equipment and software		**138,735**	**107,836**	**30,899**
Computer equipment under capital lease		**8,262**	**7,197**	**1,065**
Vehicles		**6,690**	**4,451**	**2,239**
Production equipment(a)		**387,378**	**-**	**387,378**
	$	**744,910 $**	**214,250 $**	**530,660**

2010		Cost	Accumulated Amortization	Net
Leasehold improvements	$	81,114 $	12,270 $	68,844
Furniture and equipment		69,180	57,096	12,084
Computer equipment and software		107,225	92,692	14,533
Computer equipment under capital lease		8,262	6,133	2,129
Vehicles		6,690	3,492	3,198
Production equipment(a)		146,305	-	146,305
	$	418,776 $	171,683 $	247,093

(a) Production equipment was not ready for use at June 30, 2011 and accordingly, no amortization has been recorded.

4. LICENSES

		2011		2010
Cost	**$**	**133,006**	$	133,006
Less: Accumulated amortization		**(125,143)**		(124,143)
	$	**7,863**	$	8,863

In 2002, the Company acquired the license rights to the STAR-ISMS® from a director and a former director of the Company.

The underlying patents are now owned by one director of the Company (see Note 10(c)). The Company owns the exclusive, worldwide license for the lifetime of the patents.

5. CAPITAL LEASE OBLIGATION

During the year ended June 30, 2008, the Company entered into a capital lease for computer equipment. The gross amount of the minimum lease payments related to assets under capital lease was $7,650. The lease bears interest at 15.92%. The term of the lease is for 48 monthly payments, expiring on January 10, 2012. The following is a schedule of the future minimum lease payments under this capital lease expiring by 2012 together with the balance of the obligation under the capital lease.

		2011		2010
2011	**$**	**-**	$	2,809
2012		**1,639**		1,639
Total minimum payments		**1,639**		4,448
Less: interest at the implicit rate of 15.9%		**(84)**		(359)
Balance of the obligation		**1,555**		4,089
Less: current portion		**(1,555)**		(2,534)
	$	**-**	$	1,555

6. DUE TO RELATED PARTIES

Amounts due to related parties represent amounts accrued with respect to compensation and rent due to directors and officers and former directors and officers of the Company as well as a corporation formerly controlled by an officer who is also a director of the Company. Such amounts are non-interest bearing and unsecured.

See notes 4, 8(d), 10, 15 and 17.

7. OTHER PAYABLES

Other payables are amounts due to a former employee of the Company with respect to compensation, and are unsecured, non-interest bearing with no fixed terms of repayment.

8. CAPITAL STOCK

Authorized

615,000	Series I First preferred Shares, non-voting, entitled to non-cumulative dividends at a rate of 7% in priority to common shares, redeemable at $1.00 at the option of the Company.
350,000	Series II First Preferred Shares, non-voting, entitled to cumulative dividends at 9% per annum in priority to common shares and exchangeable for common shares at the rates of 5 common shares, 3.33 common shares and 2.5 common shares for each Series II Preferred Share in each of the first, second and third years after issue respectively. Redeemable at $1.00 per share at the option of the Company.
unlimited	common shares

Issued

	Number of Shares		Value		
	Series I Preferred	**Common**	**Series I Preferred**	**Common**	**Total**
Balance at June 30, 2009	615,000	118,491,639	**$ 615,000**	**$ 17,394,257**	**$ 18,009,257**
Private placement of units [a,b,c]	-	34,153,665	-	**3,246,140**	**3,246,140**
Shares issued as finders' fees related to private placements[a,b,c]	-	3,318,832	-	**314,930**	**314,930**
Value allocated to warrants issued as part of private placements[a,b,c]	-	-	-	**(1,853,431)**	**(1,853,431)**
Stock options exercised	-	9,747,605	-	**1,144,991**	**1,144,991**
Value allocated to stock options exercised	-	-	-	**664,466**	**664,466**
Warrants exercised	-	1,887,000	-	**384,100**	**384,100**
Value allocated to warrants exercised	-	-	-	**52,668**	**52,668**
Shares issued as part of shares for debt conversion [d]	-	1,922,165	-	**384,434**	**384,434**
Share issue cost	-	-	-	**(340,830)**	**(340,830)**
Balance at June 30, 2010	615,000	169,520,906	**$ 615,000**	**$ 21,391,725**	**$ 22,006,725**
Private placement of units [e,f]	-	15,939,000	-	**2,571,000**	**2,571,000**
Units issued as finders' fees related to private placements [f]	-	506,400	-	**126,600**	**126,600**
Value allocated to warrants issued as part of private placements [e,f]	-	-	-	**(559,700)**	**(559,700)**
Stock options exercised	-	3,028,672	-	**421,225**	**421,225**
Value allocated to stock options exercised	-	-	-	**210,310**	**210,310**
Warrants exercised	-	600,000	-	**120,000**	**120,000**
Value allocated to warrant exercised	-	-	-	**67,146**	**67,146**
Share issue cost	-	-	-	**(256,933)**	**(256,933)**
Balance at June 30, 2011	615,000	189,594,978	**$ 615,000**	**$ 24,091,373**	**$ 24,706,373**

8. CAPITAL STOCK (Cont'd)

(a) On December 4, 2009, the Company completed a non-brokered private placement of 3,428,333 units (the "Units") of the Company at an issue price of $0.06 per Unit for gross proceeds totaling $205,700. Each Unit consists of one common share and one common share purchase warrant (a "Warrant"). Each Warrant entitles the holder to purchase one common share of the Company (a "Warrant Share") at a price of $0.20 per Warrant Share for a term of 24 months from the closing date. Finder's fees in the amount of $20,570 consisting of 342,833 shares are payable in connection with this private placement. All securities issued in the Offering and any shares issued upon exercise of Warrants are subject to a four month statutory hold period from the date of issuance.

(b) On November 10, 2009, the Company completed a non-brokered private placement of 10,776,666 units (the "Units") of the Company at an issue price of $0.06 per Unit for gross proceeds totaling $646,600. Each Unit consists of one common share and one common share purchase warrant (a "Warrant"). Each Warrant entitles the holder to purchase one common share of the Company (a "Warrant Share") at a price of $0.20 per Warrant Share for a term of 24 months from the closing date. Finder's fees in the amount of $62,760 consisting of 1,046,000 common shares were paid in connection with this private placement. All securities issued in the Offering and any Shares issued upon exercise of Warrants are subject to a four statutory hold period from the date of issuance.

(c) On January 12, 2010, the Company completed a non-brokered private placement of 19,948,666 units (the "Units") of the Company at an issue price of $0.12 per Unit for gross proceeds totaling $2,393,840. Each Unit consists of one common share and one common share purchase warrant (a "Warrant"). Each Warrant entitles the holder to purchase one common share of the Company (a "Warrant Share") at a price of $0.30 per Warrant Share for a term of 24 months from the closing date. Finder's fees in the amount of $231,600 consisting of 1,930,000 Units were paid in connection with this private placement. Each unit consists of one common share and one warrant. Each Warrant is exercisable at a price of $0.30 per Warrant Share for a term of 24 months from the closing date. All securities issued in the Offering and any Shares issued upon exercise of Warrants are subject to a four month statutory hold period from the date of issuance.

(d) Pursuant to the Debt Settlement agreed to on May 4, 2010, the Company issued from treasury 1,922,165 common shares of the Company at a price of $0.20 per share. The Debt Settlement resulted in reducing amounts due to related parties by $315,436 and other payables by $115,505, with a total debt reduction of $430,941. The shares issued to the creditors were restricted from sale for a period of 180 days after the date of issue. The issuance of the Debt Settlement Shares did result in a change of control, and the transaction received TSX-Venture Exchange approval.

(e) On September 20, 2010, the Company completed a non-brokered private placement of 10,875,000 units (the "Units") of the Company at an issue price of $0.12 per Unit for gross proceeds totaling $1,305,000. Each Unit consists of one common share and one common share purchase warrant (a "Warrant"). Each Warrant entitles the holder to purchase one common share of the Company (a "Warrant Share") at a price of $0.20 per Warrant Share for a term of 24 months from the closing date. Finder's fee in the amount of $115,400 in cash was paid in connection with this private placement. All securities issued in the offering and any shares issued upon exercise of Warrants are subject to a four month statutory hold period from the date of issuance.

8. CAPITAL STOCK (Cont'd)

(f) On June 22, 2011, the Company completed a non-brokered private placement of 5,064,000 units (the "Units") of the Company at an issue price of $0.25 per Unit for gross proceeds totaling $1,266,000. Each Unit consists of one common share and one-half common share purchase warrant (a "Warrant"). Each full Warrant entitles the holder to purchase one common share of the Company (a "Warrant Share") at a price of $0.50 per Warrant Share for a term of 24 months from the closing date. Finder's fees in the amount of 506,400 common shares and 253,200 warrants were issued in connection with this private placement. Each warrant is exercisable at a price of $0.50 per Warrant Share for a term of 24 months from the closing date. All securities issued in the offering and any shares issued upon exercise of Warrants are subject to a four month statutory hold period from the date of issuance.

9. CONTRIBUTED SURPLUS, STOCK-BASED COMPENSATION AND WARRANTS

Contributed Surplus

Balance at June 30, 2009	$ 2,693,622
Fair value attributed to stock options	1,127,650
Fair value attributed to stock options exercised	(664,466)
Fair value attributed to warrants granted	1,853,431
Fair value attributed to warrants exercised	(52,668)
Warrants modification	328,586
Balance at June 30, 2010	$ 5,286,155
Fair value attributed to stock options	1,249,757
Fair value attributed to stock options exercised	(210,310)
Fair value attributed to warrants granted	559,700
Fair value attributed to warrants exercised	(67,146)
Warrants modification	1,862,824
Balance at June 30, 2011	**$ 8,680,980**

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.

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

Stock Option Transactions	**Number**	**Exercise Price**	**Weighted-Average Exercise price**
Balance at June 30, 2009	**18,410,105**	**-**	**$ 0.20**
Issued	10,200,000	$0.17-$0.32	$ 0.25
Exercised	(10,047,605)	$0.10-$0.20	$ 0.12
Expired	(1,317,500)	$0.10-$0.30	$ 0.17
Balance at June 30, 2010	**17,245,000**	**$0.20-$0.29**	**$ 0.21**
Issued	2,900,000	$0.15-$0.29	$ 0.20
Exercised	(2,706,172)	$0.10-$0.22	$ 0.14
Expired	(2,115,000)	$0.11-$0.30	$ 0.24
Balance at June 30, 2011	**15,323,828**		**$ 0.22**

As at June 30, 2011 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**
December 15, 2006	200,000	200,000	$0.15	December 15, 2011
October 30, 2007	300,000	300,000	$0.25	October 29, 2012
December 7, 2007	1,400,000	1,400,000	$0.20	December 12, 2012
March 31, 2008	452,828	452,828	$0.15	March 30, 2010
August 21, 2008	440,000	440,000	$0.11	August 20, 2013
November 6, 2008	690,000	690,000	$0.15	November 5, 2013
December 23, 2008	221,000	221,000	$0.11	December 30, 2012
June 30, 2009	675,000	675,000	$0.10	June 14, 2014
January 1, 2010	350,000	350,000	$0.21	January 1, 2012
January 8, 2010	500,000	500,000	$0.21	January 1, 2015
February 8, 2010	4,345,000	4,235,000	$0.25	February 7, 2013
February 26, 2010	500,000	375,000	$0.26	January 1, 2015
March 30, 2010	2,025,000	2,025,000	$0.32	March 31, 2015
June 3, 2010	450,000	450,000	$0.22	March 31, 2015
August 31, 2010	800,000	-	$0.15	August 31, 2011
February 4, 2011	500,000	250,000	$0.21	January 1, 2015
February 10, 2011	100,000	100,000	$0.20	January 1, 2015
February 14, 2011	525,000	75,000	$0.20-$0.21	February 14, 2013
February 25, 2011	500,000	125,000	$0.29	February 24, 2016
May 31, 2011	350,000	-	$0.21	May 31, 2014
	15,323,828	12,863,828		

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

At June 30, 2011, 12,863,828 (2010 – 10,790,083) stock options with a weighted average exercise price of $0.23 (2010 - $0.18) were exercisable. The weighted average life of the options outstanding and exercisable is approximately 2.10 years (2010 – 3.88 years). The weighted average grant date fair value of options issued during the year ended June 30, 2011 is $0.24 per share (2010 - $0.28).

These options vest at varying rates from 25% to 100% per year. The fair value of the options is recognized over the vesting period as compensation expense and contributed surplus. No estimates are made of expected forfeitures or cancellations at the time of the grant of options. The fair value of the stock options granted is determined using the Black-Scholes model for pricing options under the following weighted average assumptions:

	2011	2010
Expected dividend yield	**Nil**	Nil
Risk free interest rate	**1.85%**	2%
Expected stock volatility	**103**	107
Expected Life	**2.71 years**	3.63 years

Warrants

	Number of Warrants		**Weighted-average Exercise Price**	**Expiry Date**
Balance at June 30, 2009	20,479,781		$0.30	
Issued	3,428,333		$0.20	Dec 7, 2011
Issued	10,776,666		$0.20	Nov 10, 2011
Issued	21,878,666		$0.30	Jan 14, 2012
Exercised	(1,887,000)		$(0.21)	
Balance at June 30, 2010	54,676,446		$0.29	
Issued	10,875,000	(i)	$0.20	Sept 20, 2012
Issued	2,532,000	(i)	$0.50	June 22, 2013
Issued	253,200	(i)	$0.50	June 22, 2013
Exercised	(600,000)		$(0.20)	
Balance at June 30, 2011	67,736,646		$0.26	

(i) These warrants were issued as part of unit financings in fiscal 2011 (Note 8).

Modification of warrants

On April 9, 2009, the Company extended the term of 13,182,766 common share purchase warrants that were issued by the Company as part of the private placements that occurred on May 17, 2007. The term of these warrants was extended by 2 years and the exercise price was reduced from $0.30 to $0.20, accordingly, the incremental fair value of these warrants has been estimated using the Black-Scholes option pricing model using the following assumptions: risk-free interest rate of 1.12%, expected volatility of 104%, expected life of 2 years, and an expected dividend yield of 0%.

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

On November 26, 2009, the Company extended the term of 4,244,465 common share purchase warrants that were issued by the Company as part of the private placements that occurred on December 3, 2008. The term of these warrants were extended by 2 years, accordingly, the incremental fair value of these warrants has been estimated using the Black-Scholes option pricing model using the following assumptions: risk-free rate of 1.09%, expected volatility of 109% and expected life of 2 years, and an expected dividend of 0%.

On January 6, 2011, the Company extended the term of 11,637,766 common share purchase warrants that were issued by the Company as part of the private placements that occurred on May 17, 2007. The term of these warrants were extended by 1.36 years, accordingly, the incremental fair value of these warrants has been estimated using the Black-Scholes option pricing model using the following assumptions: risk-free rate of 1.67%, expected volatility of 100% and expected life of 1.36 years, and an expected dividend of 0%.

On January 6, 2011, the Company extended the term of 4,244,465 common share purchase warrants that were issued by the Company as part of the private placements that occurred on December 3, 2008. The term of these warrants were extended by 1.9 years, accordingly, the incremental fair value of these warrants has been estimated using the Black-Scholes option pricing model using the following assumptions: risk-free rate of 1.67%, expected volatility of 101% and expected life of 1.9 years, and an expected dividend of 0%.

On January 6, 2011, the Company extended the term of 3,052,550 common share purchase warrants that were issued by the Company as part of the private placements that occurred on April 9, 2009. The term of these warrants were extended by 1.9 years, accordingly, the incremental fair value of these warrants has been estimated using the Black-Scholes option pricing model using the following assumptions: risk-free rate of 1.67%, expected volatility of 101% and expected life of 1.9 years, and an expected dividend of 0%.

On January 6, 2011 the Company extended the term of 10,501,666 common share purchase warrants that were issued by the Company as part of the private placements that occurred on November 10, 2009. The term of these warrants were extended by 1.9 years, accordingly, the incremental fair value of these warrants has been estimated using the Black-Scholes option pricing model using the following assumptions: risk-free rate of 1.67%, expected volatility of 101% and expected life of 1.9 years, and an expected dividend of 0%.

On January 6, 2011, the Company extended the term of 3,428,333 common share purchase warrants that were issued by the Company as part of the private placements that occurred on December 4, 2009. The term of these warrants were extended by 1.9 years, accordingly, the incremental fair value of these warrants has been estimated using the Black-Scholes option pricing model using the following assumptions: risk-free rate of 1.67%, expected volatility of 101% and expected life of 1.9 years, and an expected dividend of 0%.

The Black-Scholes value attributed to these modification was $1,862,824 (2010 - $328,586) and has been recorded in deficit.

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

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

	2011	2010
Expected dividend yield	**Nil**	Nil
Risk free interest rate	**1.68%**	1.33%
Expected stock volatility	**101%**	108%
Expected Life	**1.7 years**	2 years

10. GAIN ON SETTLEMENT OF DEBT

(a) On May 4, 2010, the Company approved a debt settlement agreement in which the Company issued 1,922,165 common shares at a price of $0.20 per share. The debt settlement resulted in reducing Star's debts to various creditors by $430,941. The debt settlement resulted in a gain on settlement of debt of $46,507.

(b) On December 31, 2009, one of the Company's legal counsels agreed to settle the Company's outstanding balance which resulted in a forgiven amount of $62,520. On January 6, 2010, another legal counsel agreed to settle the Company's outstanding balance which resulted in a forgiven amount of $50,907. These amounts have been recorded as a gain on settlement of debt.

10. GAIN ON SETTLEMENT OF DEBT (Cont'd)

(c) In April 2009, the Company reached a settlement in the action commenced by its former President and Technical Director of the Company (the "Claimant") and co-owner of the ISMS patents described in Note 4. As part of the settlement, the suit against the Company has been dismissed and the Company has in turn agreed to dismiss its counterclaim. The Claimant has also agreed to fully and completely cooperate and provide full disclosure to the Company in any current or future litigation in relation to U.S. Patent No. 7113852 ("the ISMS Patent"), including the litigation currently outstanding with Aeromechanical Services Ltd. and others (see Note 14). Pursuant to this settlement, the Company has agreed to pay to the claimant $116,000 in cash and issued 1,000,000 common shares at a value of $0.06 per share, and the claimant dismissed the claim and forgave $503,320 of amounts owed to him. Under the terms of the agreement the remainder of the settlement, will be repaid in thirty instalments of $3,000. Accordingly, the Company has reflected a long-term portion related to this liability and discounted the future payments at an implicit rate of 12% as described in the table below.

In a separate transaction, the claimant transferred his 50% interest in the ISMS Patent to the co-patent holder, a Company's director who is now the sole owner of the patent.

During 2010, the Company also paid an additional amount of $15,000 to a third party as a result of the above settlement.

	2011	2010
2011	**$ -**	$ 36,000
2012	**18,000**	18,000
Total minimum payments	**18,000**	54,000
Less: interest at the implicit rate of 12%	**(4,577)**	(11,202)
Balance of the obligation	**13,423**	42,798
Less: current portion included in accounts payable and accrued liabilities	**(13,423)**	(29,375)
	$ -	$ 13,423

11. INCOME TAXES

(a) Income Tax Expense

Major items causing the Company's income tax rate to vary from the Canadian statutory rate of approximately are as follows:

	2011	2010
Loss before recovery of future income taxes	**$ (4,107,795)**	$ (3,363,082)
Statutory rate	**29.26%**	32.5%
Income tax provision at statutory rate	**$ (1,201,900)**	$ (1,093,000)
Effect of income tax of:		
Non-deductible expense	**367,500**	367,000
Share issuance costs	**(32,600)**	(6,500)
Expiry of non-capital losses and other	**-**	635,100
Change in tax rates and other	**123,700**	746,900
Change in valuation allowance	**743,300**	(649,500)
Provision for income taxes	**$ -**	$ -

(b) Future Income Taxes

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

	2011	2010
Non-capital losses carried forward	**$ 5,010,800**	$ 4,287,000
Equipment and license	**85,600**	76,200
Share issue costs	**43,000**	32,900
	5,139,400	4,396,100
Less: valuation allowance	**(5,139,400)**	(4,396,100)
	$ -	$ -

The Company estimates that it will have approximately $20,043,000 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:

2014	$ 2,040,000
2015	1,700,000
2026	2,700,000
2027	2,600,000
2028	2,900,000
2029	2,766,000
2030	2,442,000
2031	2,895,000
	$ 20,043,000

12. CAPITAL RISK MANAGEMENT

The Company includes equity, comprised of issued capital stock, 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 twelve months ended June 30, 2011.

13. FINANCIAL RISK MANAGEMENT

The Company is exposed to a variety of financial risks by virtue of its activities: market risk (including currency risk and interest rate risk), fair value risk, credit risk and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance.

Risk management is carried out by management under policies approved by the Board of Directors. Management is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the approved policies.

(a) Market Risk

(i) Currency risk:

The Company is exposed to foreign exchange risk from various currencies, primarily US dollars. Foreign exchange risk arises from significant sales and purchase transactions as well as recognized financial assets and liabilities denominated in foreign currencies.

The Company's main objective in managing its foreign exchange is to maintain US cash on hand to support US forecasted cash flows over a 12 month horizon. To achieve this objective the Company monitors forecasted cash flows in foreign currencies and attempts to mitigate the risk by modifying the currency of cash held. A 1% change in the foreign exchange rate would have a $5,000 impact on foreign exchange gain.

As at June 30, 2011 the Company held $492,927 (2010 - $557,858) of cash and cash equivalents in US dollars.

(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.

13. FINANCIAL RISK MANAGEMENT (Cont'd)

(b) Fair Value Risk

The carrying amount of cash and cash equivalents, accounts receivables, accounts payable and accrued liabilities approximate their fair values due to the short-term maturities of these instruments. The long-term portion of accounts payable and accrued liabilities and capital lease obligation has been discounted at a rate that approximates current market rates and therefore, approximates fair value. The fair values of amounts due to related parties and other payable (Notes 6 and 7) cannot be reliably determined due to the uncertainty as to when these amounts will be paid.

(c) Credit Risk

The Company does not believe it is exposed to any significant concentration of credit risk. However, as disclosed in Note 16, the Company earns a significant amount of revenue from one customer. As at June 30, 2011, approximately $32,364 (2010 - $70,000) of the Company's receivables were past due the average credit period of 90 days.

(d) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due.

The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of planned expenditures.

As at June 30, 2011, the Company has current liabilities of $1,381,733 due within 12 months and has cash of $1,721,524 to meet its current obligations. As at June 30, 2011 the Company has working capital of $814,068 and accordingly, the Company is subject to liquidity risk. Management will continue to raise capital to develop, market and promote its STAR-ISMS® technology and to maintain its ongoing operations.

14. COMMITMENTS AND CONTINGENCIES

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

Year	Premises	Equipment		Total
2012	144,000	7,857	$	151,857
2013	144,000	6,143		150,143
2014	144,000	6,143		150,143
2015	144,000	6,143		150,143
2016	36,000	698		36,698
	612,000	26,984	$	638,984

(b) The Company has filed a notice of dismissal of its patent infringement lawsuit against Aeromechanical Services Ltd. (TSX-V: AMS). However, there is still a pending counterclaim in Ontario yet to be settled as of this date. AMS has filed a counterclaim against the Company claiming, among other things, $5,000,000 for lost revenue and investment capital, $10,000,000 for loss of reputation and $5,000,000 for loss of goodwill. The matter is at the discovery stage. Management believes that they will be successful defending this claim and that the claim is invalid and therefore, no amount has been accrued in the financial statements.

15. RELATED PARTY TRANSACTIONS

The Company has accrued and carries a significant balance on its 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, advisory board members and committee chairpersons that have accumulated over the past several years. The Company's Board of Directors are compensated at the rate of $2,000 per month for performing duties such as providing guidance to management in areas such as budgeting, new sales contracts or joint ventures anticipated and any other issues that management deems necessary.

Advisory Board members are business people with expertise in the Aviation industry who help the Company attain access to the decision makers of major airlines to help promote the Company's STAR-ISMS®. They are remunerated at the rate of $15,000 per year. Committee Chairperson's are selected from amongst the Directors of the Company to lead the Audit, Compensation and Corporate Governance committees. Chairpersons are remunerated at the rate of $2,000 per month. All of the above amounts are accrued in the financial statements of the Company. The terms for repayment of the amounts owing to the various Board, Advisory and Committee members are restricted.

These amounts can only be settled when individuals wish to exercise options that have been granted to them by the Company or to participate in a private placement being done by the Company.

The related party transactions disclosed are in the normal course of business and are recorded at the exchange amount, which is the amount agreed to between the related parties.

15. RELATED PARTY TRANSACTIONS (Cont'd)

At June 30, 2011, management estimates that there is the potential for the amounts due to be paid in this fiscal year, and accordingly they have been classified as current liabilities. The only fixed contractual obligations the Company has with related parties are the compensation contracts it has with the CEO, COO, CTO and CFO.

The following balances are to due to related parties as of June 30, 2011:

Due to Directors - $227,000 (2010 - $152,250), Due to Advisory Board members - $100,000 (2010 - $100,000) and Due to Committee Chairpersons - $94,000 (2010 - $72,000). Due to Chief Technical Officer and member of the Board of Directors - $12,000 (2010 - $92,576), which amount resulted from the accrual of salary, and Due to Chief Executive Officer and Chairman of the Board of Directors - $1,174,865 (2010 – $1,264,866) of which the terms on $1,000,000 was modified after year end (note 17). This amount resulted from salary accrual in prior years including certain years where as CEO no salary was taken due to the economic limitations the Company was experiencing at the time. The CEO also financed the Company at various times when the Company was experiencing funding shortfalls and deferred repayment until the Company attained financial stability. Due to related parties also includes due to a corporation formally controlled by an officer who is also a director of the Company - $28,090 (2010 - $28,090). The Company paid a director $20,000 (2010 – nil) in consulting fees during the year.

Included on the statement of operations for year-ended June 30, 2011, in general and administrative expenses is $656,000 (2010 - $575,108) in fees paid and accrued to directors and officers of the Company; this includes rent expense of $144,000 (2010 - $133,300) that was paid to a corporation formerly controlled by an officer who is also a director of the Company. An amount of $282,000 (2010 - $269,808) was paid to the Company CEO. Board of Directors fees of $74,750 (2010 - $86,000) were accrued. Advisory Board fees of $62,000 (2010 - $62,000) and were accrued. Chairperson fees of $22,000 (2010 - $24,000). Included in research and development is $180,000 (2010 - $138,525) in fees paid and accrued to the Chief Technical Officer and a director of the Company. Payments to the Chief Operating Officer $71,250 (2010 - $Nil). Professional fees of $52,500 (2010 – $54,857) were paid to the Chief Financial Officer of the Company and $12,000 (2010 – NIL) was accrued to a director of the Company regarding incorporation fees and accounting services rendered for Star Navigation Systems (U.K) Ltd. Also included in accounts payable of the Company is approximately $Nil (2010 - $5,400) owing to a director and officer of the Company.

The amounts owing to the related parties are unsecured, non-interest bearing with no fixed terms of repayment.

See also Notes 4, 6, 8 (d) and 10.

16. SIGNIFICANT CUSTOMER

During the year ended June 30, 2011, 64% (2010 - 74%) of the revenue was generated from one customer.

17. SUBSEQUENT EVENTS

- In August 2011, the Company retained the services of a provider of strategic marketing and investor relations services. Terms of the engagement included compensation of $5,000 per month plus applicable taxes for 12 months term, 500,000 options at a price of $0.25 per share and 250,000 options at a price of $0.30 per share. The options vest over a period of one (1) year from the date of the execution of the agreement.

- In October 2011, the Company changed the terms of advances of $1,000,000 owing to an officer and director (note 6 and 15). This amount will become interest bearing at an interest rate to be determined by the Board of Directors at an upcoming Board meeting retroactive to July 1, 2011 and will have a maturity date of October 28, 2012. Accordingly, the amount has been presented as a long term liability.