# Star Navigation Systems Group Ltd.
## Management's Discussion and Analysis
## For the years ended June 30, 2011 and June 30, 2010

## 1. Date – October 28, 2011

The following management discussion and analysis ("MD&A") is a review of operations, current financial position and outlook for Star Navigation Systems Group Ltd. (the "Company" or "Star") and should be read in conjunction with the audited financial statements for the year ended June 30, 2011. Results are presented for the twelve month periods ended June 30, 2011 and June 30, 2010. Amounts are reported in Canadian dollars based upon the financial statements prepared in accordance with Canadian generally accepted accounting principles. Information contained herein is presented as at October 28, 2011.

Certain information in this MD&A or incorporated by reference, and in other public announcements by the Company is forward–looking and is subject to important risks and uncertainties. Words such as "may", "will", "believe", "expect", "anticipate", "estimate" and similar expressions identify forward-looking statements. Forward-looking information includes information concerning the Company's future financial performance, business strategy, plans, goals and objectives. Forward–looking statements are necessarily based upon estimates and assumptions considered reasonable by management but which are subject to business, economic and competitive uncertainties. Results could differ materially from those projected in forward-looking statements. Due to the Company's previous focus on directing early sales and marketing efforts on the Middle East and developing countries, the Company is potentially subject to risks involving political unrest, cultural differences, differing legal systems and business practices, and the significant added expense of travel and accommodation for Company personnel required to be onsite for sales, testing and installation duties. The Company endeavours to mitigate these risks as much as reasonably possible through the judicious use of secure financial instruments, experienced local sales agents and coordinated travel arrangements. The Company now spreads its efforts between North America and Europe, as well as the Middle East, and South Asia. Current events in the Middle East have resulted in some restriction of the Company's efforts there, although the Company did record a sale to MidWest (Egypt) Airlines ("MidWest').

Factors which could cause actual results to differ materially from current expectations include, among other things, the ability of the Company to successfully implement its strategic and financing initiatives and whether such strategic and financing initiatives will yield the expected benefits; competitive conditions in the business in which the Company participates; supply chain interruptions; general economic conditions and normal business uncertainty; fluctuations in foreign currency exchange rates; and changes in laws, rules and regulations applicable to the Company in the jurisdictions in which the Company operates. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements, whether as a result of new information, or future events or otherwise, except as may be required by law.

If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law.
Readers are cautioned that forward-looking statements are not guarantees of future performance.

Further information relating to Star is available on SEDAR at www.sedar.com.

## 1. General Development of the Business

History

Star commenced its operations in May 2000 and was listed on the TSX Venture Exchange (the “Exchange”) on August 29, 2002, under the symbol ‘SNA’. Based in Toronto, Ontario, Star is a development stage company that has successfully tested, marketed and sold technology platforms that offer operators of land, sea and air assets real-time data-solutions which allow them the opportunity to reduce costs, track assets and enhance aviation and operator safety. The Company’s products have global sales potential for both new and existing aircraft as well as other transportation assets. The Company’s head office is in Toronto, Ontario. Star owns the exclusive world-wide license to the patented STAR-ISMS® technology. Patents have been granted by Canada, the United States, the United Kingdom, India, Hong Kong and Australia. Star has now entered into an agreement with a unit of Astrium Services (a European Aeronautic Defense and Space Company (“EADS”) to market and sell the Airbourne Data Service, which will combine Star’s Star-ISMS® technology with Astrium’s experience in secure satcom, data handling, service delivery and satellite operations.

### Selected Financial Information and Management's Discussion and Analysis

### Annual Information

The fiscal year end of the Company is June 30. The following table summarizes the Company’s audited financial results for the year ended June 30, 2011, 2010 and 2009.

| | **Year ended June 30, 2011** | **Year ended June 30, 2010** | **Year ended June 30, 2009** |
|---|---|---|---|
| Total revenues | $98,591 | $153,849 | $457,405 |
| Net Loss | $(4,107,795) | $(3,363,082) | $(2,978,175) |
| Total assets | 2,734,324 | $2,517,752 | $301,420 |
| Total long term liabilities | $1,000,000 | $14,978 | $46,707 |
| Cash dividends declared | $Nil | $Nil | $Nil |

The Company experienced a loss in the fiscal year ended June 30, 2011 and had losses averaging $3,483,017 for the last three years. A major factor that has contributed to these losses has been the Company's slow transition from Research & Development ("R&D") into the commercial market, causing a lack of sales of the Company's In-Flight Safety Monitoring System ("STAR-ISMS®") unit to major airlines.

The Company continues to invest money in the development of its STAR-ISMS® unit and has recently completed negotiations with Paradigm Services Limited ("Paradigm"), a unit of Astrium Services ("Astrium"), an EADS company, to market Star's STAR-ISMS® unit in Europe. The Company is now preparing for it's Pilot project that will accelerate the transition to the European airline market. However, the Company has had no substantial revenues for the past 3 years. The Company's focus and attention is now very strongly directed towards the commercialization of its core product STAR-ISMS® thru the Astrium agreement, and on closing further sales with commercial airlines. In the aerospace industry this process is typically long and arduous and has forced the Company to rely on raising capital through equity sales to fund the research and development and operational finance that is needed to bring this project to fruition. As can be seen from the table above, total assets for the years ended 2011 and 2010 are substantially higher than 2009 indicating that the Company's cash levels have increased significantly and have remained there.

Assets in the fiscal year ending June 30, 2011 climbed to $2.73 million largely as a result of the completion of two private placements the Company completed throughout fiscal 2011.

This increase in cash has allowed the Company to accelerate marketing plans and to achieve its first sales of the STAR-ISM® unit to commercial airlines.

The Company has long-term debt of $1.0 million owing to a related party. This advance is interest bearing with a rate to be determined by the Company's board of directors. This advance has a maturity date of October 28, 2012. Short-term debt has been reduced in the year by using the cash raised. Although the private placements have caused an increase in the total number of issued and outstanding shares to just over 189.5 million at June 30, 2011, the increase in cash has put the Company in a position to fund its known expenditures for the next twelve (12) months while still retaining a positive cash balance should spending on research and development need to be increased.

## Overview and Overall Performance

The Company's financial condition remains healthy at June 30, 2011. The cash position of the Company, while decreasing since December 31, 2010, remains at the $1.72 million dollar level as of June 30, 2011. Assets are up by $217k from the June 30, 2010 levels largely due to the increase in sundry receivables and capital asset additions. Accounts receivable are down significantly (by $80,268) from June 30, 2010 as the Company has now collected all but a minimal amount of its past due accounts receivable balances and has setup an allowance to cover off those receivables not previously collected from 2010. Prepaid expenses have increased $315,675 as a result of deposits on inventory subject to certification by Transport Canada ("TC") paid to suppliers.

Accounts payable and accrued liabilities are up by over $172,500 from June 30, 2010 as the Company incurred significant legal fees in association with the completion of the Astrium agreement. As well, amounts due to related parties dropped by $73,825 from June 30, 2010 due to payments made to reduce these balances. Results of operations continue to show significant losses although the Company has entered into agreements with respect to sales of its STAR-ISMS® to MidWest and Shaheen Air International ("Shaheen"). This will start to offset R&D costs and regular operating costs.

The Company is committed to releasing its new STAR-ISMS® Second Generation Star Server Unit ("SSU-G2") in the winter of 2011. The Company has sufficient cash reserves to do this. However, the Company cannot forecast the future costs of moving its STAR-ISMS® program to the next level until the Company secures further significant contracts with fixed-wing commercial airlines.

As mentioned above, the Company has entered into sales agreements with both MidWest and Shaheen airlines and is currently working on the Installation Supplemental Type Certificates ("STC"), although operational demands on the target aircraft has limited Star's access to the aircraft, resulting in some adjustments in the schedule. Both MidWest and Shaheen have expressed full commitment to the project and are working with Star to complete the requirements for certification.

The evaluation period for MidWest Airlines will last for 90 days and will commence as soon as the Operational Supplemental Type Certificate approval is issued (expected in the winter of 2011). The agreement with Shaheen provides that upon successful completion of the performance evaluation, the airline will purchase the installed unit and purchase a further eleven STAR-ISMS® systems for the balance of its fleet. Should this initiative be successful, it will assist the Company to successfully market its STAR-ISMS® unit to other airlines and would have a positive impact on its results of operations in 2012.

Although the Company is continuing to progress, it is in the infancy of commercialization and without significant revenues at this time. Revenues are flat and the Company has focused its efforts on the marketing, promotion and sale of its STAR-ISMS® unit. In order to better accommodate flexible fleet configurations, the SSU-G2 unit has been designed to satisfy several Federal Aviation Regulation ("FAR") categories that include various environmental and operational requirements. Testing on the SSU-G2 unit is substantially completed and is now expected to be commercially available by the winter of 2011 and will be installed on both the Shaheen B737 and MidWest aircraft, once the Installation STC's are received.

The Company has also, successfully achieved AS9100 Rev C: ISO 9001:2008 certification in 2011. AS9100 Rev. "C" is the international quality management system standard for Aircraft, Space and Defense ("AS&D") industry. The standard is based on ISO 9001:2008 and includes additional quality system requirements specifically for aerospace. The standard provides manufacturers and suppliers with a comprehensive internationally recognized quality system for providing safe and reliable products to the aerospace (civil, military) industry.

In November 2010 the Company announced its participation with Astrium Services (France) and the General Directorate for Civil Aviation in France ("DGCA") in the SESAR project. Prompted by the AF447 loss and the significant problems and costs associated with locating the black boxes carried aboard, the study was initiated in order to propose innovative solutions for improving aircraft safety and optimizing coordination between both air transit and search and rescue services in remote or oceanic areas. Content for the final report submission has been submitted by Star to its SESAR project partners.

Other complimentary products such as "STAR-ISMS® Lite", (flight tracking and monitoring system incorporating two-way voice and data), STAR-ISMS® Ultra Lite, (an airborne asset tracking and monitoring system), as well as Terrestrial Monitoring and Marine Monitoring which serve the same purpose for land and marine applications, are available and are being marketed and sold. See the Company's website at www.star-navigation.com for more information.

The Company continues its efforts to conclude existing sales initiatives with customers in Pakistan, India, Europe and North America and has expanded the number of airlines with whom it is currently in discussion in those areas.

As stated earlier, efforts in the Middle East have been significantly reduced due to the political unrest occurring there.

Discussions continue with appropriate governmental authorities in India concerning the granting of the Aeromobile license required to use the STAR-ISMS® in Indian airspace, as the Company's system cannot be utilized in the absence of such approval.

While recent funding through private placements has enhanced the Company's financial position, strict hiring protocols and other cost cutting measures remain in place pending increased revenues. Attendance at promotional events such as air shows continues to be closely assessed in terms of value for investment and potential networking and relationship building opportunities. In this regard, during the calendar year ended December 31, 2010, the Company attended airshows in Berlin, Farnborough where it exhibited with EADS and Egypt (where the Company had its own booth) and Atlanta and attended the 2011 Paris airshow in June. It will be attending the MBAA show in Las Vegas in October 2011. Airshow attendance in conjunction with Astrium is planned for fiscal 2012.

The Company has now successfully completed negotiations with Astrium, and has entered into a commercial agreement with Astrium. This agreement is comprehensive and complex in nature and should provide Star with the marketing experience to further commercialize the STAR-ISMS®.

**Operational Milestones**

During the year-ended June 30, 2011, the Company has made the following progress towards achieving its objectives:

- Successful completion of the Astrium agreement.

- The Company has successfully achieved AS9100 Rev C and ISO 9001:2008 Certification. This important, industry world-wide recognized aerospace certification will go a long way in supporting the Company's sales efforts. The certification confirms that the Company's quality environment is of a very high standard, thereby providing a better "comfort level" to potential customers and suppliers thus potentially shortening the sales cycle.

- Star and CMC Electronics Inc. ("CMC") agreed to cooperate in the establishment of an integrated turn-key solution for Original Equipment Manufacturers ("OEM") based on Star's STAR-ISMS® In-Flight Safety Monitoring System software coupled with CMC's PilotView® and TacView® EFB Systems, applications and aircraft integration services.

- The Company entered into an agreement with Shaheen (see Overview & Overall Performance).

- The Company has completed the performance/design and platform upgrades to its Ground Station Services ("GSS"). As part of its commitment to continuous improvement, Star has upgraded its Ground Station platform to better position it for the expected growth in 2011/ 2012. The new platform will enhance the reliability and performance of the current infrastructure and is ready to accommodate new customers and the commercial "pilot project" that is tentatively scheduled to begin in early 2012.

- Development of the Company's new SSU-G2 avionics server is completed. Although delayed, (see Overview) testing of the prototype is ongoing and a commercial 3 – 6 month "pilot project" rollout is expected to begin in the winter of 2011.

- Negotiations continue with Pakistan International Airlines Corporation ("PIA"). Daily operational flights with the STAR-ISMS® aboard one of PIA's A-310 aircraft are ongoing and the upgraded model of the First Generation SSU, currently aboard the PIA A-310 is meeting all design expectations. Star's representatives in Pakistan continue to maintain close contact with PIA officials.

- In China, working discussions continue with respect to the COMAC 919 Big Commercial Aircraft project and the Company is awaiting the completion of the long-term selection process. Star understands that its STAR-ISMS® will be considered for Phase II of the C919 project. Star has offered to provide more information, if needed, in an effort to expedite the process for deciding on supplemental systems.

**Outlook**

Star's Management looks to achieve the following for the fiscal year ending June 30, 2012 and ahead to June 30, 2013:

- Formalize the relationship with Astrium through the negotiation and execution of a formal commercialization mechanism under which Star and Astrium can develop new business opportunities in the field of aircraft critical data collection, analysis and transmission.

- Prepare and implement an integration plan for the development/implementation of our STAR-ISMS® software onto PilotView® and TacView® EFB's (Esterline/CMC Electronics).

- Enter into full production of the SSU-G2. The Company has ordered and received 15 units of the STAR-ISMS® which are awaiting certification by Transport Canada ("TC").

- Continue to work closely with PIA in order to secure a purchase order by building upon the results of the real-time demonstration aboard a PIA A-310 and the negotiations continue with PIA management.

- Continue to develop sales initiatives in the Europe, the Middle East and North America.

- Manage additional funding opportunities and aggressively monitor operating and administrative expenses.

- Continue to work on the COMAC 919 project in China. As stated previously, the Company has been informed that COMAC is still going through the selection process and that they have not yet decided/confirmed the second level/supplemental systems. This is a very large scale project and there have been some scheduling extensions. Consideration for Star's STAR-ISMS® is expected for the second phase of the C919 program. Potential suppliers (including Star) have no control over the process at this stage.

- Continue research and development efforts, with respect to increased functionality of the STAR-ISMS® for additional applications. Star continues to be committed to the longevity and improvement of the STAR-ISMS(R) product / service and will continue to focus significant effort in Research and Development. Pursuit of improved reliability and new capabilities, is paramount to STAR's long term success.

- Continue to closely monitor and defend our Intellectual Property

- The Company has entered into royalty negotiations with the owner of the patents upon which the Company's' STAR-ISMS® technology is based. As the owner of the patents is also a director and CEO of the Company, a Special Committee composed of independent directors of the board of directors has been struck and is charged with the responsibility of negotiating with the owner of the patents on an arm's length basis.

  The Special Committee has engaged third party professionals to assist it in the required valuations. Agreed upon compensation was paid by the Company at the time of granting of the original exclusive license of the technology. However, additional compensation is warranted as a result of the acceptance of substantial personal liability by, and undertakings given on the part of the owner of the patents in order to allow the Company to successfully conclude the negotiation of the agreement with Astrium.

  In addition, the agreement could potentially result in a substantial reduction of the value of the patents to the owner in the future.

- Expansion of the revenue stream from existing STAR-ISMS® Lite, STAR-ISMS® Ultra Lite and Terrestrial Monitoring products through effective sales, installation and world-wide marketing. For more information see the Company's website at www.star-navigation.com.

The Company's focus continues to be exclusively on the commercialization and refinement of its product and on the furthering of the sales and marketing of our flagship product – STAR-ISMS® - the In Flight Safety Monitoring System ™.

**Summary of Quarterly Results**

The following table sets out selected unaudited financial information, presented in Canadian dollars and prepared in accordance with generally accepted accounting principles in Canada, for each of the previous eight quarters ended June 30, 2011. The information contained herein is drawn from interim financial statements of the Company for each of the aforementioned eight quarters.

(Expressed in $)

| **Three months** | **2011** | **2011** | **2010** | **2010** |
|---|---|---|---|---|
| **Period Ending** | **June 30** | **March 31** | **December 31** | **September 30** |
| Revenue | 24,872 | 20,896 | 21,019 | 31,804 |
| Working Capital/(Deficit) | 814,068 | (443,455) | 64,623 | 530,848 |
| Expenses | 739,649 | 862,424 | 1,698,187 | 888,911 |
| Net Loss | (731,992) | (841,528) | (1,677,168) | (857,107) |
| Net Loss (per Share) | (0.004) | (0.005) | (0.010) | (0.005) |

| | 2010 | 2010 | 2009 | 2009 |
|---|---|---|---|---|
| **Period Ending** | **June 30** | **March 31** | **December 31** | **September 30** |
| Revenue | 32,661 | 75,660 | 22,377 | 23,151 |
| Working Capital/(Deficit) | (12,241) | (219,398) | (2,595,982) | (3,012,419) |
| Expenses | 1,713,772 | 837,399 | 585,789 | 428,710 |
| Net Loss | (1,554,231) | (821,402) | (581,621) | (405,828) |
| Net Loss (per Share) | (0.02) | (0.01) | (0.00) | (0.003) |

Quarter-over-quarter fluctuations for fiscal 2011 and 2010 are primarily as follows:

- Low and inconsistent revenue generation throughout the year
- Working capital fluctuations in fiscal 2011 were influenced primarily by the completion of two private placements that were completed in Q1 and late Q4 of fiscal 2011. There have been no further private placements since June 14, 2011.
- Increases in December 2010 and June 2011 expenses related to the assigned fair values of stock option grants and year end audit related adjustments.
- For fiscal 2011 working capital moved into a positive position for the first two quarters of the year due to the Company completing three private placements in fiscal 2010 and another one in September 2010. The Company also at that time reduced its current liabilities such as accounts payables and accrued liabilities, fiscal 2010 working capital deficiency was quite high for the first two quarters of 2010 but then was reduced considerably due to the Company's completion of three private placements.
- Net losses for the 12 month periods ending June 30, 2011 and June 30, 2010 were $4,107,795 and $3,363,082 respectively.

**RESULTS OF OPERATIONS**
**Comparison of the twelve month periods ended June 30, 2011 and June 30, 2010**

The following commentary compares the audited consolidated financial results for the twelve months ended June 30, 2011 and June 30, 2010.

**Overview:**

The Company has generated a loss for the fiscal year ended June 30, 2011 of $4,107,795 vs. a loss of $3,363,082 for the same period in 2010. The increased loss of $744,713 is due to many differences including but not limited to increased stock-based compensation costs along with increases in general and administration ("G&A") costs, research and development ("R&D") costs, and professional fees. Amortization and foreign exchange costs increased while marketing and promotion ("M&P") costs decreased.

The Company has seen all of its major expense categories increase. Increases in G&A of $47,544, R&D of $229,249, professional fees of $190,871 and amortization of $9,610 occurred while M&P dropped this year by $24,788 over 2010.

The Company's sales for June 30, 2011 amounted to $98,591 while in 2010 sales were $153,849, a difference of $55,258. During the year-ended June 30, 2010 the Company had completed an order for 5 STAR-ISMS® Lite units to Skylink Canada which accounted for $41,515 of the difference while airtime fees dropped by $13,742.

These airtime variances are caused by the Company's customers having fluctuating usage of the units they now have installed in their aircraft and land vehicles. The Company continues to make the aviation market more aware of its products and this increased awareness has resulted in the Shaheen agreement which was signed in September 2010 and the MidWest agreement. If, upon the successful completion of the evaluation period (see Overview and Outlook), Shaheen is satisfied with the results of the evaluation, it has committed to an order of 12 of the Company's STAR-ISMS® units. The MidWest order is for approximately four of the STAR-ISMS® units. The Company is confident that it will continue to build on the increased market awareness and that with the signing of the Astrium commercial agreement in June 2011, further sales will occur at an increased rate in the near future.

The Company continues to expand its visibility in the overseas markets, the Company attended the Paris Airshow in June 2011, and will be attending the National Business Aviation Annual Meeting and Convention show in Las Vegas in October 2011, the Dubai Airshow in November 2011 and hopes that the increased exposure will lead to increased sales figures as the world-wide economy stabilizes and airline companies increase their capital spending. Both Boeing and Airbus have increased their forecasts for aircraft production through to 2030.

**Revenues:**

The Company's monthly monitoring fees charged to various customers have dropped in 2011 as compared to 2010 (2011 - $78,345 vs. 2010 - $90,617). The Company has one customer that continues to add additional vehicle tracking devices throughout the year which has resulted in increased monthly fees paid to the Company. However, these revenues fluctuate from period to period depending on the usage of the devices in the aircraft and land vehicles. Some devices are turned off for periods of time resulting in decreased fees while others are on aircraft or vehicles that have extra usage.

The Company only sold two (2) of its STAR-ISMS® lite units in fiscal 2011 while in 2010 five (5) of these units were sold. The inconsistency in sales highlights the need for the Company to continue to obtain more customers with an increased marketing campaign to try and smooth out this area of sales.

**Cost of Sales:**

The Company continues to promote its products into various markets around the world but has yet to achieve a sale to a major commercial airline. To this end it has effectively been selling its product at very attractive margins in previous periods to entice customers to purchase its products, see the usefulness of the product and to purchase other units. Another reason for this is that the products being developed can have a very long sales cycle and require acceptance amongst several customers rather than just one. As a result the Company's margins are very low.

In the future the Company expects to sell for higher margins once they have gained a major commercial airline as a customer.

**Research and Development**:

Research and development expenses have increased in 2011 by $229,249 (2011 - $717,807 vs. 2010 - $488,558). The increase was driven by the increase in wages of $156,190 (2011 - $516,435 vs. 2010 - $360,245). One of the reasons for this increase was the increase in sub-contractor expense (2011 - $161,090 vs. 2010 - $64,071) and an increase in staff wages (2011 - $354,345 vs. 2010 - $296,174). The use of sub-contract expense increased in this year as the Company is gearing up to receive its new SSU-G2 box which required more testing requirements before the SSU-G2 can be installed on any commercial airliners. Increases in salaries to senior technical staff also took place and furthermore the Company is no longer enrolled in a government sponsored work sharing program which it was for fiscal 2010 (it ended on May 31, 2010). This work program saved the Company 40% of the wages it spent on staff in 2010.
Salaries did increase by $59,171 in 2011 compared to 2010 as the Company has also increased the number of technical staff from 2010. The Company has further plans to increase its technical staff complement by the end of Q1-2012.

Travel expense has decreased by $31,306 as the Company's technical staff has travelled less. The Chief Technology Officer has also spent more time to assist in the completion of the new SSU-G2 box and to push the startup of the pilot project associated with the new commercial sales agreement that was signed with Astrium in June 2011. Research and development material costs have increased (2011 - $153,017 vs. 2010 - $92,246) as the Company ramps up toward production of its new SSU-G2 unit. These costs have increased as material costs needed to test the new box have also increased and enhancements to the Company's technical testing area have been improved along with the purchase of new testing equipment. As part of its product improvement initiative, for the past 2.5 years Star has been working on enhancements to its fuel management, fleet management and savings modules. Working closely with aviation experts and experienced pilots, Star's R&D team has developed modules that offer improvements in efficiency, flexibility and performance measuring capabilities. Star will continue in its pursuit of functional and effective product development and improvement.

**General and Administrative**:

General and administrative ("G&A") expenses have increased by $47,544 (2011 - $953,091 vs. 2010 - $905,547). This increase was a combination of increases and decreases in several expenses in the G&A category.

Fees accrued to Board of Director members decreased by $11,250 due to the resignation of directors in both 2011 and 2010 thereby reducing the amount that the Company accrues in the year. The Company now has only two non-executive directors (out of a total of 4 directors for fiscal 2011) for whom it is accruing monthly fees which is less than it had in the same period in 2010. The Company recently added a fifth director in September 2011. Strategic advisory fees accrued remained the same in 2011 as in 2010 ($62,000 for each year respectively).

Audit Committee Chairperson accrued fees decreased by $2,000 this year (2011 - $24,000 vs. 2010 - $22,000. Rent expense has increased this year by $16,680 (2011 - $149,980 vs. 2010 - $133,300). Rent expense has increased from $10,000 per month to $12,000 per month due to an increase in office space occupied by the Company and the costs of its Atlanta office have now come online.

Consulting costs increased by $26,500 (2011 - $69,950 vs. 2010 - $43,450) as the Company engaged the services of an executive search firm to help it fill the position of Chief Operating Officer. It also paid $32,000 ($20,000 and $12,000 respectively) for the additional services provided by a director of the Company in the negotiation of the Astrium commercial sales agreement in June 2011 and costs associated with the purchase of its U.K. subsidiary. The Company also paid $12,000 for the services of a strategic advisory board member for his help in negotiating sales contracts. G&A wages have increased by $85,000 over 2010 levels due to the hiring of a Chief Operating Officer in February of 2011. This accounted for $71,250 of the increase.
A salary increase in January 2010 for the Chief Executive Officer added an additional $11,000 in 2011 and the balance of the increase was due to the hiring of an executive assistant to assist management and the marketing department.

Filing fees increased by $12,609 after an Ontario Securities Commission (“OSC”) review of the Company’s disclosure requirements. This resulted in additional costs of $18,848 of compliance fees but this was offset by a decrease in filing fees paid to the TSX-V in the year of $5,557.

Bad debt expense which was $20,539 in 2010 has been completely collected in 2011 thereby resulting in a complete reversal of this result. Bad debt expense for 2011 amounted to just $6,153. The total decrease for the Company amounted to $34,925. Increases occurred in travel (2011 - $36,335 vs. 2010 - $5,856) as the CEO was required to spend an increased amount of time travelling to London to finalize the commercial sales contract with Astrium. Office expense has decreased by $17,693 in 2011 over 2010 as the Company has paid close attention to all expenditures in the course of the year.

The Company is committed to monitoring all expenditures and has implemented a series of procedures that ensures that future expenditures are sourced out with more than one vendor and discounts are sought at all times. This allows the Company to continue to monitor its cash balance effectively.

**Marketing and Promotion:**

Marketing and promotion (“M&P”) related costs have been kept under control and have been decreased by $24,788 (2011 - $413,339 vs. 2010 - $438,127). The decrease was primarily driven by decreases in M&P wages, advertising costs and investor relations costs. The Company expended a large amount on advertising in fiscal 2010 ($34,153) and has only expended $575 in 2011 because of this. The Company recognizes that advertising will be a continued expense as it strives to broaden its brand recognition and the full effects of the commercial sales agreement with Astrium kick-in in the 2012 fiscal year.

The Company has started to broaden its marketing initiatives overseas and in the United States in 2010 which has continued in 2011. Travel costs have increased by $9,777 in 2011 (2011 - $121,376 vs. 2010 - $111,599). Travel costs will continue to increase as the Company continues to push its message out to prospective customers around the world and especially south of the Canadian border. To this end the Company opened up a satellite office in Atlanta, Georgia in September 2010 and it hopes that this will allow it to take advantage of the large aviation presence there. This will take time and patience but has already resulted in greater industry recognition for the Company.

The Company has no employees in its M&P department as it has moved to the use of consultants whom it uses if and when required. This allows the Company better control over the use of resources necessary to promote its product and it can enlist specialists where needed. Consulting costs have increased minimally in 2011 by $5,827 but this increase was offset by the $20,836 it saved in salary costs in 2011.

Investor relations costs have dropped as the Company ended its relationship with its investor relations firm Agoracom and has only recently (August 2011) engaged a new investor relations firm. This saved the Company $23,002 in 2011 over 2010.

**Professional Fees:**

Professional fees had the second largest increase of all expense categories for fiscal 2011. Professional fees have increased by $190,871 over 2010 (2011 - $646,050 vs 2010 $455,179). The increase occurred almost totally as a result of an increase in legal fees. Legal fees increased by $182,732 over 2010 and this increase is strictly due to the cost of legal fees associated with the Company’s negotiations with respect to the commercial sales agreement with Astrium (closed in June 2011). The Company continues to seek closure in its pending litigation against Aeromechanical Services (“AMS”). Costs to date on this case have totaled $96,075. Also, the Company continues to defend its intellectual property from infringement and to that end has hired a legal firm in Washington, D.C. and another in Toronto to advise it on any breaches that may have occurred and give advice on how to approach these breaches.

In-house legal counsel costs amounted to $78,589 for 2011 vs. $69,588 for 2010. Accounting fees decreased by $2,357 (2011 - $52,500 vs. 2010 - $54,857) and audit fees increased by $1,674 (2011 - $57,762 vs. 2010 - $56,088). This includes reviews of certain compliance related issues and assistance with planning the conversion to International Financial Reporting Standards (“IFRS”) in 2011.

**Stock based compensation**

The Company has a stock option plan (the "Plan") for employees, officers, directors and consultants performing special technical or other services for 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 (2009 - 19,589,684) common shares. The designation of Optionees, amount and vesting provisions of the stock options under the Plan are determined by the Board of Directors.

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.

During 2011 stock-based compensation amounted to $1,249,757 vs. $1,127,650 in 2010. The increase in stock-based compensation was due to the number of options the Company granted in the fiscal 2010 year that vested in fiscal 2011 resulting in a higher than normal stock-based compensation calculation (based on the Black-Scholes model).

## Amortization

Amortization costs were $46,707 during 2011 vs. 37,097 for 2010. The increase in amortization results from an increase in the Company's asset base that occurred in the third and fourth quarters of fiscal 2010.
The Company spent money on improving the offices in Toronto and on production equipment. The total amount of equipment and license additions in the year totaled $326,134.

As a result, amortization for leasehold improvements has increased for 2011. Production equipment will be amortized once it has been fully completed.

## Foreign Exchange Gain/Loss

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

## Liquidity and Capital Resources

The Company had cash and cash equivalents of $1,721,524 at June 30, 2011 compared to a cash balance of $2,022,926 at June 30, 2010. The Company's cash balance was increased September 2010 and June 2011 when the Company completed two private placements raising $1,266,000 and $1,305,000 respectively. The Company has a working capital deficiency of $185,932 at June 30, 2011 compared to the working capital deficiency of $12,241 at June 30, 2010. The Company now has sufficient cash to cover its known operating expenditures for the next 12 months and will raise money through equity financings if unforeseen expenditures arise. Due to the uncertain nature of its ability to close sales with major airlines the Company cannot project with certainty what level of cash commitment it may face in the future. That being said, the Company continues to seek additional financing should it sign a major deal.

The Company has also had talks with its major supplier of the STAR-ISMS® unit to see if it can arrange terms that would allow the Company to purchase the unit and defer a substantial portion of the payment until it is paid by a customer. The Company continues to keep its accounts payable current, does not suffer from any defaults on its lease commitments and, as it does not have any significant long-term debt, there are no breaches of any loan covenants.

The Company is subject to the risks generally associated with high-technology development stage companies, which include fluctuations in operating expenses and revenues and its ability to secure further equity or debt financing/funding which is subject to prevailing market conditions at that time. There can be no assurance that management will be successful in raising the necessary capital required to continue the project but it has taken the necessary steps to address this concern.

**Off Balance Sheet Arrangements**

As at June 30, 2011, the Company had no off balance sheet arrangements such as guaranteed contracts, contingent interests in assets transferred to an entity, derivative instrument obligations or any instruments that could trigger financing, market or credit risk to the Company.

**Outstanding Share Data**

| | |
|---|---|
| Series I Preferred Shares | 615,000 |
| Common Shares (i,ii,iii,iv,v) | 189,594,978 |
| Share Purchase Warrants | 67,736,646 (exercise prices ranging from $0.20 cents to $0.50) |
| Stock Options | 15,323,828 (exercise prices ranging from $0.10 to $0.32 with expiry dates up to February 29, 2016 and various graded vesting provisions). |

(i) On November 10, 2009, the Company completed a non-brokered private placement of 10,776,666 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 additional common share of the Company at a price of $0.20 per additional common share for a term of 24 months from the closing date. Finder's fees in the amount of $62,760 in cash commissions and warrants to acquire 1,046,000 common shares were paid in connection with this private placement.

(ii) On December 4, 2009, the Company completed a non-brokered private placement of 3,428,333 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 in cash commissions and warrants to acquire 342,833 common shares were paid in connection with this private placement.

(iii) On January 12, 2010, the Company completed a non-brokered private placement of 19,948,666 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 additional common share of the Company at a price of $0.30 per share for a term of 24 months from the closing date. Finder's fees in the amount of $231,600 in cash commissions and warrants to acquire 1,930,000 units were paid in connection with this private placement.

(iv) Pursuant to the debt settlement (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 creditors were restricted from resale for a period of 180 days from the date of issue. The issuance of the Debt Settlement Shares will not result in a change of control.

(v) On September 14, 2010, the Company completed a non-brokered private placement of 10,875,000 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 additional common share at a price of $0.20 per share for a term of 24 months from the closing date. Finder's fees and in the amount of $115,000 in cash were paid in connection with this private placement.

(vi) Star Navigation Systems Group Ltd. announced that on June 15, 2011, it had 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 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.

### *Critical Accounting Estimates*

For information regarding critical accounting estimates used by the Company, please see Note 2, Significant Accounting Policies of the audited financial statements of the Company for the year-ended June 30, 2011.

### *Significant Accounting Policies*

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and follow the same accounting policies and methods of their application as the most recent audited consolidated financial statements for the year ended June 30, 2011, except for the change in accounting policies described in Note 2. These consolidated financial statements should be read in conjunction with those audited consolidated financial statements.

### *Recent Accounting Pronouncements Issued and Not Yet Applied*

(a) In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian public companies. The AcSB strategic plan outlines the convergence of Canadian GAAP and IFRS over an expected five year transitional period. In February, 2008, the AcSB announced that January 1, 2011, is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP, affecting interim and annual financial statements relating to fiscal years after this date. These new standards will be applicable as of January 1, 2011. The Company has a June 30 year end, and accordingly would need to prepare annual and interim financial statements relating to fiscal year beginning on July 1, 2011 and ending on December 31, 2012, in accordance with IFRS. This in turn will require IFRS comparatives for the fiscal year beginning on July 1, 2010 and ending on June 30, 2011. As such, July 1, 2010 is the effective date of transition for the Company. For 2010-11, information will have to be gathered in accordance with both existing Canadian GAAP and IFRS.

    In summary, financial statements prepared using IFRS will be required for the first quarter of 2011-12 and will include 2010-11 comparative IFRS information, and the July 1, 2010 balance sheet.

    The Company has formally established a transition plan and project implementation team. As an update to our previously filed annual and quarterly MD&A, management engaged an external consultant to undertake a preliminary review of the impact of IFRS on the Company's financial statements.

    The objective of this review was to highlight, initially, all potential differences that are significant to the Company. The Company has completed the detailed diagnostic plan which included identifying significant accounting policy differences and their related areas of impact in terms of systems, procedures and financial statements.

Differences between IFRS and Canadian generally accepted accounting principles (GAAP), in addition to those referenced below, may continue to be identified based on further detailed analysis by the Company and other changes to IFRS prior to the Companies conversion to IFRS in 2011-12.

The Company will continue to review all proposed and continuing projects of the International Accounting Standards Board to determine their impact and will continue to invest in training and resources throughout the transition period to facilitate a timely conversion.

Set out below are some of the key areas which indicate accounting differences, and where changes in accounting policies are expected that may materially impact the Company's consolidated financial statements. The list and comments should not be regarded as a complete list of changes that will result from a transition to IFRS. It is intended to highlight the more significant areas we have identified to date.

Analysis of changes is still in process and not all decisions have been finalized where choices of accounting policies are available.

**Accounting Policy Impact and Decisions**

Intangible assets

IFRS 1 permits a Company to revalue intangible assets at their fair value as at the date of transition to IFRS. Such intangible assets would need to meet the recognition criteria (including reliable measurement of original cost); and the criteria for revaluation (including the existence of an active market). The Company is currently evaluating this option.

Business combinations

IFRS 1 provides an exemption that allows Companies transitioning to IFRS to not restate business combinations entered into prior to the date of transition. The Company is currently evaluating this option.

Share-based payments

IFRS 1 provides an exemption that allows Companies not to apply IFRS 2 Share-based Payment to options granted before November 2002, as well as to options granted after November 2002, but vested prior to transition. The Company is currently evaluating this option.

Equipment

In view of the component accounting that is strictly applied under IFRS, the Company will need to ascertain if items of property, plant and equipment would need further componentization. It may be likely that certain items of equipment could include components that need to be accounted and depreciated separately.

Impairment of Assets

Canadian GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists, and then measuring impairment by comparing asset carrying values to their fair value (which is calculated using discounted cash flows). IAS 36 Impairment of Assets (IAS 36) uses a one-step approach for testing and measuring impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted cash flows).

This may potentially result in write-downs where the carrying value of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis. This difference could lead to income statement and earnings volatility in future periods. The Company is currently assessing the implications of the difference in the impairment approach.

Revenue recognition

In reviewing IAS 18 Revenue, the Company has determined that certain changes will be made in the manner in which it would recognize revenue in arrangements that have multiple deliverables, going forward. In accordance with Canadian GAAP, revenue is recognized for all delivered elements in an arrangement when there is objective and reliable evidence of fair value for the undelivered elements (commonly referred to as the residual method). Under the residual method, the amount of consideration allocated to the delivered elements equals the total arrangement consideration less the fair value of the undelivered item. However, in accordance with IFRS, revenue is allocated and recognized for each separately identifiable component in a multiple deliverable arrangement. The residual method is not permitted. As a result, for certain arrangements, the amount and timing of revenue recorded for each identifiable component may differ under IFRS.

Provisions

The Company is currently assessing the requirements of IAS 37, “Provisions, Contingent Liabilities and Contingent Assets”, to determine whether all its provisions meet the “probable” recognition criteria under IFRS, and whether any additional provisions are required.

(b) In December 2009, the CICA issued EIC 175, Multiple Deliverable Revenue Arrangements, replacing EIC 142, Revenue Arrangements with Multiple Deliverables. This abstract was amended to: (1) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (2) require, in situations where a vendor does not have vendor-specific objective evidence or third-party evidence of selling price, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (3) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (4) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance. The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If EIC 175 is adopted early, in a reporting period that is not the first reporting period in the entity's fiscal year, it must be applied retroactively from the beginning of the Company's period of adoption. The Company is currently reviewing the impact of adoption of these amendments on its financial statements.

### *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 director's 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 per person.

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 such that 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.

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 Chief Executive Officer ("CEO"), Chief Operating Officer ("COO"), Chief Technology Officer ("CTO") and Chief Financial Officer ("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 the CTO and member of the Board of Directors - $12,000 (2010 - $92,576), which amount resulted from the accrual of salary, and Due to the CEO 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 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 and accrued 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) were accrued. Included in research and development is $180,000 (2010 - $138,525) in fees paid and accrued to the CTO and a director of the Company. Payments made to the COO totaled $71,250 (2010 - $Nil). Professional fees of $52,500 (2010 – $54,857) were paid to the CFO 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.

### *Financial Instruments and Other Instruments*

The Company's financial instruments consist of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities, due to related parties, other payables and capital lease obligations.

Management does not believe these financial instruments expose the Company to any significant interest, currency or credit risks arising from these financial instruments.

The fair market values of cash and cash equivalents, accounts payables and accrued liabilities approximate their carrying values.

### *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. 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.

### *Risk Factors and Risk Management*

Although management is working diligently towards generating revenue, improving cost containment and achieving profitable operations, the Company is subject to the risks generally associated with high-technology development stage companies. These risks include fluctuations in operating expenses, lengthy sales cycles, the pace of technological change, competition, regulatory approvals and permitting, and the need to secure further equity or debt financing and/or funding.

The Company is also subject to the risk of competition in a fast moving high technology industry. Protection of the Company's intellectual property carries the risk of expensive litigation. Retention of highly skilled key personnel, fluctuation of input costs, travel costs and general economic conditions may impact the Company's performance."

The Company’s revenues depend mainly upon two factors: hardware sales and ongoing monthly monitoring charges and airtime. Revenues from hardware are normally a one-time event and are dependent upon sales.

Therefore, these revenues will vary from period to period. Revenue from a customer from ongoing monthly monitoring is relatively stable, but can vary depending upon usage and, in rare cases, upon the financial health of the customer. The Company is working diligently to increase the level of sales across its product suite, carefully monitors the payment records of its customers, and sets its pricing models to reflect risk and return realities.

Operating expenses are generally stable but will vary depending on sales activity and required research and development activities. Both expense items are pre-revenue in nature. Also, as the Company is determined to protect its Intellectual Property, cases of potential infringement of patent are not predictable and the legal costs involved can be substantial. While all eventualities cannot be predicted, the Company maintains a sufficient level of funds to cover most contingencies.

The Company's target clients for the flagship STAR-ISMS® system are mainly commercial airlines. As is the case with high technology sales to any large commercial operation operating on slim margins in a competitive environment, the sales cycle is generally a lengthy one, involving multiple varied sales presentations to several different departments and stakeholders, be they engineering, finance, operations or the executive.

A large percentage of the Company's sales initiatives to date have involved non-North American customers, with the attendant travel and time requirements. Amongst other initiatives, the Company is increasing its North American sales presence, refining its sales process, and making greater use of video conferencing.

The Company is in the latter stages of the testing and commercialization of its SSU G2. In order to maintain and enhance its current competitive advantage, the research and development department of the Company is continually working to upgrade the existing functionality, size, weight and price point of the STAR-ISMS® system.

Although the Company's exclusive world wide license to the patented technology underlying the STAR-ISMS® system provides a large measure of security, advances in technology are possible.

As has been demonstrated by duration of the Company's discussions with the Government of India with respect to the ability of Indian customers to utilize the STAR-ISMS® system in Indian airspace, regulatory matters can delay the sales process to varying degrees. The Company relies upon entities such as Transport Canada to issue approvals such as Supplementary Type Certificates, required whenever the Company is installing equipment aboard an aircraft. While Transport Canada works hard to provide excellent service, this is not always the case around the world.

Until revenues exceed expenses, the Company raises the necessary capital through private placements. There can be no assurance that management will be successful in raising the necessary capital required to fund pre-revenue activities.

Due to the Company's original intentional focus on directing early sales and marketing efforts on the Middle East and developing countries, the Company is potentially subject to risks involving political unrest, cultural differences, differing legal systems and business practices, and the significant added expense of travel and accommodation for Company personnel required to be onsite for sales, testing and installation duties.

The Company intends to mitigate these risks as much as possible through the judicious use of secure financial instruments, experienced local sales agents and coordinated travel arrangements. Increasing recent focus by the Company on North American and European opportunities also serves to mitigate some of these risks.

## ***INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES***

In accordance with National Instrument 52-109, Certification of Disclosure in Issuer's Annual and Interim Filings ("NI 52-109"), the CEO and CFO file a Venture Issuer Basic Certificate with respect to the financial information contained in the financial statements and accompanying Management's Discussion and Analysis. The Venture Issuer Basic Certification includes a "Note to Reader" stating that the CEO and CFO do not make any representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109.

As part of our corporate governance practices, internal controls over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P") have been designed. There has been no formal evaluation of the operation of these controls. The Company has designed its ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

Management works to mitigate the risk of a material misstatement in financial reporting; however, a control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

The Company's DC&P have been designed to ensure that information required to be disclosed by Star is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure.

It should be noted that while the Company's CEO and CFO believe that the Company's DC&P provide a reasonable level of assurance that they are effective, they do not expect that the DC&P or ICFR will prevent all errors or fraud. There have been no material changes to the internal controls of the Company in the twelve-month period ended June 30, 2011.