Star Navigation Systems Group Ltd.
Management's Discussion and Analysis
For the three and six month periods ended December 31, 2011 and 2010

1. Date – February 29, 2012

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 three and six month periods ended December 31, 2011 and December 31, 2010. Amounts are reported in Canadian dollars based upon the financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). Information contained herein is presented as at February 29, 2012.

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. Events in the Middle East in 2011 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.

2. 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'. The Company's head office is in Toronto, Ontario. Star 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. 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 Paradigm Services Limited, ("Paradigm") a unit of Astrium Services (a European Aeronautic Defense and Space Company EADS N.V. ("EADS") company), to market and sell the Airborne Data Service ("ADS") worldwide. The ADS will combine Star's STAR-ISMS® technology with Astrium's' experience in secure satellite communication, data management centers, data handling, service delivery and satellite operation. The responsibility for strategically executing this venture has been delegated to a Service Management Committee ("SMC") composed of senior personnel from both parties.

Star has also entered into an agreement with CMC Electronics Inc.("CMC") to integrate Star software with CMC's PilotView® Electronic Flight Bag ("EFB type 2") for sale to their existing customers. This agreement has two stages. The first stage involves translating older Generation 1 software based on the Windows operating system to the more current version of the Windows operating system installed on the EFB Type 2. The second stage involves the generation of the required specification features demanded by CMC.

Capability of the STAR-ISMS® G2 System

The current system has been designed to run on a Linux operating system and provide real time data every 5 minutes (or more frequently based on customer requirements). Depending on customer requirements, Star offers updates to a select number of critical parameters (more if the customer prefers) which experience has shown covers 98% of the time critical information Senior Managers in the Airlines require. All of the other information is stored on the box for download through WiFi, and by June 2012, GSM, to the customers Maintenance, Operational and Financial Departments.

Our system will allow Airlines to avoid unnecessary maintenance checks by accurately measuring the OOOI (Out,Off,On,In) times and the actual level of demand put on the mission critical components of the aircraft. It's features should appeal to Insurance Companies, Leasing Companies and Maintenance and Repair Organizations ("MRO's") responsible for the maintenance of the aircraft. Identification of non-conformance to standard operating procedures will allow for improved training and effective feed back to the aircrews and operations management. As business models of large equipment suppliers, MRO's and lessors move towards charges based on flying hours, this system could become a critical component in providing the data accuracy required.

More importantly, through the use of real time statistical analysis, pilots, maintenance personnel and management will be better able to predict emerging problems with the aircrafts' critical systems, before they trigger an event requiring replacement or an impediment to efficient use of the aircraft. In summary, the system can do trend analysis and has designed in efficient filters to avoid false triggers that waste resources identifying "no fault found" indications.

The system has the ability to move to constant streaming of information once an event has triggered a warning to the aircrew and the ground staff. STAR-ISMS® G2 will then stream data on the critical parameters and other measurements of the deteriorating components or systems.

Once a problem has been identified, the system will continue to stream information and because of the GPS system, continuous positioning of the aircraft will be shown via the Direct Monitoring System operated by Paradigm. As the information is sent from the aircraft, Senior Management and critical Ground Crew will be updated on their PDA's and computer screens. This will allow the ground crew and management to make and to optimize the decisions necessary to correct a problem and to endeavour to eliminate any safety threats or potential costly delays on the ground.

The Company expects that the collection of a select number of parameters that can be quickly and economically updated in real-time will allow the Airlines to make the right decisions for safety, economy and cost avoidance. In addition, the system allows the supply of detailed follow- on data in a more timely fashion than any other system on the market, allowing the overall management of the fleet to be optimized.

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 years ended June 30, 2011, 2010 and 2009.

	Year ended June 30, 2011 (IFRS)	**Year ended June 30, 2010** (IFRS)	**Year ended June 30, 2009** (CGAAP)
Total revenues	$98,591	$153,849	$457,405
Net Loss	$(4,483,728)	$(4,514,129)	$(2,978,175)
Total assets	2,734,324	$2,517,752	$301,420
Total long term liabilities	$Nil	$14,978	$46,707
Cash dividends declared	$Nil	$Nil	$Nil

The Company experienced a loss in the fiscal year ended June 30, 2011 of $4,483,728 and now has losses averaging ($3,990,011) for the last three years. The major factor that has been contributing to these losses has been the Company's protracted transition from a research and development ("R&D") company into a company that is delivering product into the commercial market.

The Company's focus and attention is now and will continue to be very strongly directed towards commercialization of its core product, the In-Flight Safety Monitoring System ("STAR-ISMS®"), closing further sales with commercial airlines and on closing further sales for other products currently available or in development. In the aerospace industry this process can be long and challenging, which has forced the Company to continue to rely on raising capital through private placements to fund research and development, and operational expenses that are needed to bring this project to fruition. As can be seen from the table above, total assets for the year ended 2009 were minimal as the Company's cash levels were quite low. Assets in the fiscal year ending June 30, 2010 climbed to $2.5 million largely as a result of three private placements the Company completed throughout the year, and in 2011 assets have increased again by a marginal amount over 2010. The Company did complete 2 private placements in fiscal 2011. Increased inventory of $262,500 occurred during the first half of fiscal 2012 and cash was required to fund this purchase, in addition to costs attributable to the certification costs for MidWest Airlines.

This increase in cash in 2010 and 2011 allowed the Company to accelerate marketing plans and to achieve its first sales of the STAR-ISM® unit to commercial airlines.

The Company has no long-term debt as at December 31, 2011. 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 increased cash levels at that time allowed the Company to pay down short-term debt and accounts payables while retaining a positive cash balance should spending on research and development need to be increased.

Overview and Overall Performance

The Company's financial condition has deteriorated as the cash position of the Company continues to decrease. The cash balance at December 31, 2011 was $153,202. This is down substantially from the June 30, 2011 balance of $1,721,524. Assets are down by $1,621,803 since June 30, 2011. This is largely due to the decrease in cash which has dropped by $1,568,322 since June 30, 2011. This decrease is a result of Star's monthly burn rate of $150,000, payments made to the supplier of Star's SSU-G2 box totaling $214,245, payments for legal and audit fees, which included the Paradigm commercial agreement, totaling $304,301, Strategic Advisory Board payments of $31,000 as well as repayment of shareholder loans and professional fees to various directors of $145,000 and an additional loan repayment of $28,090. The Company has also paid $45,000 towards securing a Supplemental Type Certificate ("STC") in connection with its recent sales agreement with MidWest related to an aircraft leased by Midwest to Shaheen Air International ("Shaheen"), with the balance being payments to key suppliers for customer installation costs and maintenance costs.

Accounts receivable are down by $25,414 since June 30, 2011. Prepaid expenses have increased $24,424 as a result of equipment deposits paid to suppliers on inventory subject to certification by Transport Canada (“TC”).

Accounts payable and accrued liabilities are down by over $254,195 from June 30, 2011 as the Company incurred significant legal fees in association with the completion of the Paradigm agreement in June 2011 and has now paid those expenses. The Company continues to reduce its current liabilities with the cash on hand it has. As well, amounts due to related parties has dropped by $45,090 from June 30, 2011 as directors have utilized some of their accrued compensation in order to exercise options to purchase common shares of the Company. 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 the trial with Shaheen. This will start to offset R&D costs and regular operating costs once these installations have been completed.

The Company continues to invest money in the development of its STAR-ISMS® unit and the ADS service. The Company and Paradigm are now preparing for the ADS Pilot project, anticipated to begin in April 2012. This date is dependent upon successful completion of Validation and Verification Testing, scheduled for the first half of March 2012. Paradigm will have a Data Management Centre in service by the beginning of April 2012, and is expected to have targeted a European company for the pilot phase of the ADS project shortly. However, Star has had no substantial revenues for the past 3 years. As stated, the Company’s focus and attention is now very strongly directed towards the commercialization of its core product STAR-ISMS® thru the Paradigm agreement, and working with the SMC on the expansion of the product line and services. The process for qualifying the Star Server Unit (“SSU G2”) box has been completed and it is ready for shipment to customers. MidWest is our first customer for the SSU G2. The STC’s for their B737-800 are dependent upon receipt by the Company of the maintenance and inspection documentation. Due to the ongoing disruptions in Cairo, this installation will probably take place in the latter months of this year.

The sale cycle for “first of type” aircraft requires a significant investment in inventory and technical manpower, requiring the Company to rely on raising capital to fund the R&D and operational efforts that are needed to bring this project to fruition.

As mentioned above, the Company has a sales agreement for three units with MidWest. Operational demands on the target aircraft (limiting Star’s access to it) and DO-160E safety and reliability test scheduling, has resulted in delays to the schedule from September 2011 to April 2012. Both MidWest and Shaheen have expressed full commitment to the project and have worked with Star to complete the requirements for certification. The targeted aircraft, a B737-800 is currently on lease to Shaheen. The evaluation period for Shaheen will last for 90 days and will commence as soon as the Operational Supplemental Type Certificate approval is issued (already approved subject to availability of maintenance and non-destructive testing manuals).

Although the Company is continuing to progress, it has to develop a more focused sales effort, in conjunction with Paradigm. Revenues are flat and the Company has to improve its focus on the marketing, promotion and sale of its STAR-ISMS® unit. The DO 178 B (level E) (statement of conformity of software aspects of the system with airworthiness requirements) from our Designated Airworthiness Representative (“DAR”) will be completed during February 2012 and will be installed in the SSU G2 box for the MidWest and other airlines B737-800 aircraft. On receipt of both the installation STC and the DO

178 B statement of conformity, we will be shipping 3 STAR-ISMS ® systems to Paradigm to complete a purchase order received from them in December 2011.

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 an 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 AF-447 loss in June of 2009 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 was submitted by Star to its SESAR project partners. Participation in this study is recognition of the technical competence of the Company's' engineering experts, and positions us to have a better understanding of the future requirements of the Aviation authorities responsible for air safety. It should be noted that Star was one of only 4 presenters, others including Boeing and Airbus.

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. In its efforts towards better supporting its "STAR-ISMS® Lite", Star has developed a more user-friendly, detailed, active internet portal that will hopefully lead to an increase in customer usage through better service and increased use of its products, leading to what may be an increase in revenue from this product. 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. It is expected that most of these prospects will be migrated to the Paradigm/Star Airborne Data Service sales team.

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

Discussions continue with appropriate governmental authorities in India concerning the granting of the Indian 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 the Company is cautiously encouraged by the tenor of ongoing discussions with Indian authorities, there is no definitive progress to date.

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, 2011, the Company attended airshows in Paris and Dubai.

The Company attended the National Business Aviation Association show in Las Vegas in October 2011. Airshow attendance in conjunction with Paradigm is planned for calendar 2012.

Teams from both Star and Paradigm continue to prepare for the launch of the Airborne Data Service. This agreement is comprehensive and complex in nature and should provide Star with useful marketing experience with which to further commercialize the STAR-ISMS®.

Operational Milestones

During the year-ended June 30, 2011 and for the six month period ended December 31, 2011, the Company has made the following progress towards achieving its objectives:

- Hired Mr. John Thorburn as Chief Operating Officer of the Company. Mr. Thorburn a Licensed Professional Engineer, a Certified Management Accountant and a Project Management Professional with over 20 years' experience in the aerospace and defense industry with Litton Systems Canada Ltd (now operating as L3-Communications Electronic Systems Division). Mr. Thorburn has experience in the development and manufacturing of highly engineered systems incorporating both advanced software and high precision hardware. He brings over 10 years of executive management experience as VP Operations at Litton, VP Operations at Leitch Technologies and Contract VP Operations at Photowatt Technologies.

  The Company has hired Mr. Scott Carroll as Quality Manager, reporting directly to the CEO. Mr. Carroll is responsible for the control of all quality matters pertinent to Star's products and systems, the Quality Management System and for ensuring that the Company pursues policies consistent with a proactive approach to cost avoidance and continuous improvement. As the Company prepares for full commercialization, there is a strong focus on achieving quality excellence in all that the Company does. The Company has introduced a top level planning process whereby key strategic and operational objectives are cascaded to all levels of the organization in a way that can be measured and tracked for results. In order to ensure customer satisfaction, Star must be able to demonstrate that it can produce, and continually improve, safe, reliable products that meet customer and applicable statutory and regulatory requirements.

  To meet this challenge, Star is both an approved manufacturer of STAR-ISMS® under Transport Canada CAR 561, and certified to AS9100 Rev. C and ISO 9001:2008. Our quality management system, which has an impact on all the Company's business processes, is well positioned to assist in the task of maximizing value creation and injecting targeted improvements. Taking a responsible approach to dealing with risks will be one of the Company's top priorities. This will encompass managing the risks involved in designing, manufacturing and selling our products along the entire supply chain, to achieve a high level of satisfaction demanded by our customers.

- Star and CMC agreed to cooperate in the establishment of an integrated turn-key solution for Original Equipment Manufacturers ("OEM") based on the STAR-ISMS® software coupled with CMC's PilotView® and TacView® EFB Systems, applications and aircraft integration services. This cooperation is ongoing and software is currently being updated to accommodate the project. The Company and CMC next have to prove the validity of the approach, determine the size of the potential market and develop a business plan that does not conflict with our agreement with Paradigm. On completion of the first stage, the proposed business model will require the approval of CMC's management, the Company's Board of Directors and the ADS Service Management Committee. The targeted date for completion of the technical capabilities phase 1 is the end of Q3 (March 2012).

- The Company is reviewing the capability of its current ground station services to serve those of its customers who will not be part of the ADS service. The previous upgrades from last year were adequate in the development phase, but would not be sufficiently reliable to support a full service. As a result the company has identified the necessary hardware and software to supply a more appropriate service and minimize the internal support costs. The main ADS ground station will be located in Paradigm's facilities in the United Kingdom.•
  The Company plans to have the new Ground Station in service by the end of September 2012. The ground station will also be used to enhance the internal Research & Development of the SSU G2 system and future work on the G3 box.

- 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 is meeting all design expectations. The Company sent a top Aerospace Consultant to PIA during December 2011 to assist PIA in understanding the benefits they could expect from upgrading to the SSU G2 system and the enhancements to be expected from the joint ADS service with Paradigm.

- In China, Star understands that its STAR-ISMS® will be considered for Phase II of the Comac 919 project – expected to begin in 2013. Due to delays in the project Star has not been active in that area but continues to maintain and enhance its relationships with our contacts in China.

- The Company signed a sales agreement with Midwest Airlines (Egypt) and the required STC has been submitted and approved by Transport Canada, subject to availability of two manuals at the customer's facility in Cairo. As mentioned above Star was unable to install the system in September 2011 before the aircraft was leased to Shaheen, as a result of the DO 160 E environmental testing process.

- The Company submitted its final documentation to the working group formed to seek solutions to problems stemming from the Air France AF-447 loss. In July, the final report of the intergovernmental working group was published and the Company was pleased to note that the capabilities of the STAR-ISMS® system directly address one of the main requirements of the report, that being the triggering of location data as soon as an emergency situation is detected onboard .

- The Company enhanced its ability to demonstrate the capabilities of the Airborne Data Service through its cooperation with Paradigm in the development of a functional simulator, primarily for use at airshows. The simulator allows a prospective customer to better understand and appreciate the features and benefits of the system in a “hands on”, visual manner.

- As part of its ongoing research and development program, the Company purchased a small aerobatic aircraft as a flying test bed allowing, amongst other things, confirmation of important data transmission and satcom connectivity requirements. The aircraft allows the Company to demonstrate that the STAR-ISMS® system remains fully functional even when the aircraft itself is in abnormal or extreme flight attitudes, such as could be encountered in an accident scenario.

- The Company completed 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 a related party to the Company as a director and CEO of the Company, a Special Committee composed of independent directors from the board of directors was struck and was charged with the responsibility of negotiating with the owner of the patents on an arm's length basis.

  At the time of granting of the original exclusive license of the technology in 2002, agreed upon compensation was paid by the Company. However, additional compensation was 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 Paradigm. In addition, the agreement could potentially result in a substantial reduction of the value of the patents to the owner in the future.

  The Special Committee engaged third party professionals to assist it in the required valuations and royalty negotiations and sought the advice of outside counsel.

Outlook

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

- Continue to execute the commercialization of the Airborne Data Service with Paradigm and develop new business opportunities in the field of aircraft critical data collection, analysis and transmission. The plan is to have the pilot phase of this service up and running by the beginning of the 4th Quarter 2012 (April 2012)

- Prepare and implement an integration plan for the development/implementation of our STAR-ISMS® software onto CMC's PilotView® and TacView® EFB type 2's. Present a business case for the senior management of CMC, Star Navigation Systems Group Ltd. and the joint Star/Paradigm SMC by the beginning of Q4 2012.

- Deliver 12 units of the STAR-ISMS® of the 15 units recently accepted from the Company's supplier, Luxell Technologies. Three of these boxes will be delivered to Paradigm to satisfy the Purchase Order received in December. A further 3 boxes have been used as engineering units for future testing and proof of the DO 160 E testing. The remaining 9 boxes are now available for the Pilot project customers starting in April 2012.

- 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 maintain a persistent approach to negotiations with PIA management. The objective is to sign them on as a pilot project partner within the agreement with Paradigm.

- Continue to develop sales initiatives in the Europe, the Middle East and North America. The ADS marketing and sales strategy is an integral part of our relationship with Paradigm and the full integration of our previous efforts and their resources will enhance our credibility and increase the level of service we are able to offer our potential customers.

- Manage additional funding opportunities and aggressively monitor operating and administrative expenses. The emphasis has moved to improved internal accountability and proper resourcing of the R&D function to avoid missing critical milestones and to delivering project deliverables on time and within budget. Utilize the addition of Mr. Carroll to bring an emphasis on Policy Deployment and the alignment of Strategic goals with every individual within the Company.

- Continue to support the bid to become part of 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. Potential suppliers (including Star) have no control over the process at this stage.

- Continue research and development efforts, with respect to both increased functionality of the STAR-ISMS®, and for additional applications. Star continues to be committed to the longevity and improvement of the STAR-ISMS® product / service and will continue to focus significant effort in Research and Development. To that end has employed 3 new Software Engineers and is investigating the addition of a Purchasing Specialist and a Systems Engineer by the end of Q3.

- Continue to work towards improved reliability, extended warranty periods and new capabilities, which are critical to STAR's long term success.

- Continue to closely monitor and defend our Intellectual Property and to take a leading position in the market through innovation and fast response to the changing requirements of our customer base. The lessons learned from the development phase of our G2 system will be used on our next project to develop a G3 system.

- 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. As a result of our relationship with a Canadian mapping company we are able to offer exceptionally high reliability for our service along with geo fencing, weather mapping and accurate billing features. 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 – the STAR-ISMS® system.

Summary of Quarterly Results

The following table sets out selected unaudited financial information, presented in Canadian dollars and prepared in accordance with IFRS for the periods from July 1, 2010 onwards and generally accepted accounting principles in Canada, for each of the previous quarters prior to July 1, 2010. 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**	**2011**	**2011**
Period Ending	**December 31**	**September 30**	**June 30**	**March 31**
Revenue	19,623	18,268	24,872	20,896
Working Capital/(Deficit)	(1,474,554)	(819,142)	814,068	(443,455)
Expenses	823,379	807,826	637,847	862,424
Net Loss	(810,607)	(804,628)	(630,190)	(841,528)
Net Loss (per Share)	(0.004)	(0.004)	(0.004)	(0.005)

	2010	**2010**	**2010**	**2010**
Period Ending	**December 31**	**September 30**	**June 30**	**March 31**
Revenue	21,019	31,804	32,661	75,660
Working Capital/(Deficit)	64,623	530,848	(12,241)	(219,398)
Expenses	750,657	1,311,424	2,864,819	837,399
Net Loss	(746,290)	(1,334,842)	(2,705,278)	(821,402)
Net Loss (per Share)	(0.004)	(0.007)	(0.02)	(0.01)

Quarter-over-quarter fluctuations for fiscal 2012 and 2011 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 $4,483,728 and $4,514,129 respectively.

RESULTS OF OPERATIONS

Comparison of the three and six month periods ended December 31, 2011 and December 31, 2010

The following commentary compares the unaudited interim consolidated financial results for the three and six month periods ended December 31, 2011 and December 31, 2010.

<u>Overview</u>:

The Company has generated a loss for the six month period ended December 31, 2011 of $1,615,235 vs. a loss of $2,081,132 for the same period in 2010. For the three month period ended December 31, 2011 the loss amounted to $810,607 vs. $746,290 for the same period in 2010. The decrease in loss of $465,897 for six months and the increase in loss of $66,240 for three months is due to many variances including but not limited to a decrease in 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 decreased along with marketing and promotion ("M&P").

The Company's sales for the three month period ended December 31, 2011 amounted to $19,623 while in 2010 sales were $21,019, a difference of $1,396. For the six month period ending December 31, 2011 sales were $37,891 vs. $52,823 for the same period in 2010 for a decrease of 14,932. These 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 6 the Company's STAR-ISMS® units. The MidWest order is for 3 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 future.

The Company continues to expand its visibility in the overseas markets. It 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.

<u>Revenues</u>:

The Company's sales for the three month period ended December 31, 2011 amounted to $19,623 while in 2010 sales were $21,019, a difference of $1,396. For the six month

period ending December 31, 2011 sales were $37,891 vs. $52,823 for the same period in 2010 for a decrease of 14,932.

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 and only five (5) of these units were sold in fiscal 2010. 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. Sales of new aviation products can have a fairly long sales cycle and acceptance by several customers rather than just one is often a prerequisite to further sales. As a result the Company's margins have been kept 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 for the three month period ended December 31, 2011 by $39,333 (2011 - $213,088 vs. 2010 - $173,755). The increase was partially driven by an increase in wage costs of $39,624 (2011 - $158,777 vs. 2010 - $142,334). One of the drivers of this payroll increase was the hiring of three (3) new I.T. resources. Offsetting this increased waged cost was a decrease in the use of sub-contractors for the period which saved the Company $23,200 in the quarter. Also in this quarter R&D costs for materials used by the Company increased by $23,394 (2011 - $41,917 vs. 2010 - $18,523). Travel expense has increased slightly in this quarter.

For the six month period ended December 31, 2011, R&D costs amounted to $459,661 vs. $309,299. This increase of $150,362 is driven mainly by an increase in R&D material and development costs of $93,129 and an increased wage cost of $55,236. Wage costs will continue to increase as the Company ramps up its I.T. staff complement to be fully ready for the commercialization of the STAR-ISMS®. R&D material costs have increased (2011 - $121,527 vs. 2010 - $28,399) as the Company ramps up towards full 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. The use of sub-contract expense will continue to increase in the 2012 fiscal year as the Company's new SSU-G2 box is placed into service.

General and Administrative:

General and administrative ("G&A") expenses have increased by $115,728 (2011 - $537,067 vs. 2010 - $421,339) for the six month period ended December 31, 2011. This increase is a result of a combination of increases and decreases in several expenses in the G&A category.

Fees accrued to Board of Director members decreased by $4,000 due to the resignation of a director in 2011 thereby reducing the amount that the Company accrues in the year. The Company added a fifth director in September 2011. The Company now has three non-executive directors (out of a total of 5 directors for fiscal 2012) for whom it is accruing monthly fees, which is less than it had in the same period in 2010.

Strategic Advisory Board fees accrued remained the same in 2011 as in 2010 ($31,000 for each year respectively). Audit Committee Chairperson accrued fees remained the same in this six month period as in 2010 (2011 - $12,000 vs. 2010 - $12,000).

Rent expense has increased this year by $12,000 (2011 - $72,000 vs. 2010 - $60,000). 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 due to the costs of its Atlanta office which have now come online.

G&A consulting costs were $9,000 for this six month period which is a decrease of $23,200 (2011 - $9,000 vs. 2010 - $32,200) as the Company had engaged the services of an executive search firm to help it fill the position of Chief Operating Officer in 2010 which totaled $30,000.

G&A wages have increased by $102,852 for the six month period (2011 - $242,784 vs. 2010 - $139,932) due to the hiring of a Chief Operating Officer in February of 2011 and the hiring of a Quality Control Manager in October 2011. These two hiring's added $97,500 to G&A wages which the Company did not have in the six month period ended December 31, 2010.
An increase in July 2011 of $2,000 per month for the Chief Executive Officer added an additional $12,000 (the CEO salary accrual amount now has decreased by this corresponding amount on a monthly basis).

Regulatory filing fees increased in this period as the Company held its Annual General Meeting in December 2011. Insurance expense has increased as well as the various policies the Company carries saw increases from the prior year and health insurance expense continues to increase as the Company adds new employees.

Office expense has increased by $3,333 in this six month period of 2011 over 2010. Travel (2011 - $23,586 vs. 2010 - $15,980) increased. Repairs and maintenance expense decreased marginally in this quarter as did telephone costs.

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.

For the three month period ended December 31, 2011 G&A expenses have increased $84,153 over the same period in 2010 (2011 - $299,633 vs. 2010 - $215,480). Wage costs contributed $59,003 to this increase, as well courier costs increased by $9,955 while regulatory filing fees were up by $4,873 and insurance rose by $3,721. Offsetting these increases were decreases in consulting costs, bank charges and dues and subscriptions.

Wage expense increased with the addition of a new Quality Control manager which contributed $22,500, the Chief Operating Officer accounted for $37,500. Both of these expenditures were not expenses during the same period in 2010.

Courier costs rose unexpectedly in this period as the Company incurred significant delivery charges on shipments being sent to Paradigm in the U.K. This increase was $9,955 (2011 - $10,791 vs. $2010 - $835).

Rent is up for this period by $6,000 over the three month period as the Company's monthly rent expense has rose to $12,000 per month from $10,000.

Consulting fees decreased by $6,000 (2010 - $9,000 vs. 2010 - $15,000) as the Company paid a director a consulting fee in connection with its commercial agreement with Paradigm and SMC meetings held. In 2010 the Company was using an executive search firm to look for its future Chief Operating Officer.

Marketing and Promotion:

Marketing and promotion ("M&P") costs have been kept under control and in the six month period ended December 31, 2011 have been decreased by $33,090 (2011 - $201,199 vs. 2010 - $234,289). The decrease was primarily driven by consulting costs dropping. Investor relations costs increased in this quarter over 2010 and total travel expense was down by $2,520.

The Company started to broaden its marketing initiatives overseas and in the United States in 2010, and this has continued in 2011. Travel costs have decreased slightly from 2010 costs (2011 - $54,922 vs. 2010 - $57,442). Travel costs will continue to occur 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's satellite office in Atlanta, Georgia was opened in September 2010 to take advantage of the large aviation presence there. This will take some 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 as and when required. This allows the Company better control over the use of resources necessary to promote its product and allows it to enlist specialists where needed. Consulting costs have decreased by $34,540 (2011 - $117,544 vs. 2010 - $152,084).

Investor relations costs have increased this quarter over 2010 as the Company engaged a new investor relations firm (First Canadian Capital) to market and promote the Company to shareholders and investors. The cost to the Company has risen from $3,000 per month that it paid to its previous investor relations firm last year to $5,000 per month that it now pays to First Canadian Capital (2011 - $15,000 vs. 2010 - $9,000).

In the three month period ended December 31, 2011, M&P costs have dropped by $6,525 over 2010 (2011 - $107,114 vs. 2010 - $113,639). All costs within M&P dropped in the quarter.

Consulting costs were down by $4,386, Investor relations costs were down and travel was down by $1,477.

<u>Professional Fees</u>:

Professional fees have increased in the six month period by $48,741 (2011 - $203,162 vs. 2010 - $154,421). The increase occurred as a result of increases in accounting and audit fees. Legal fees increased by $1,080 over 2010 and this marginal increase is strictly due to the cost of legal fees associated with Paradigm negotiations and the review of the commercial agreement and the continuing pending litigation with Aeromechanical Services (“AMS”). The Company remains committed to the defence of its intellectual property from infringement and to that end has hired a firm in Toronto to advise it on any breaches that may have occurred and as to the most effective response to any such breach.

Accounting fees increased by $12,250 (2011 - $36,250 vs. 2010 - $24,000) and audit and non-audit professional fees increased by $35,410.

This increase includes reviews of certain compliance related issues and assistance with planning the conversion to International Financial Reporting Standards (“IFRS”) in 2011 as well as costs (non-audit professional fees) associated with the Company obtaining third party confirmation as to the valuation of patents licensed to the Company that the Company holds in relation to its commercial marketing agreement with Paradigm.

In the three month period ended December 31, 2011, Professional fees have increased by $37,607. Audit fees and non-audit professional fees are up by $53,910 over the same quarter in 2010 due to increased costs of regulatory reviews and the cost of a valuation of the Company patents and related royalty agreement with the owner of the patent. Legal fees have dropped in this three month period by $24,052 and accounting fees have increased by $7,750.

<u>Stock based compensation</u>

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. In December of 2011, the shareholders approved an increase to 35,000,000 shares. The designation of Optionees, amount, exercise price 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 for employees are measured at the fair value of the equity instruments issued and stock-based payments for non-employees are measured at the fair value of the consideration received or liabilities incurred, whichever is more reliably measurable. Each tranche is an award is considered a separate award with its own vesting period and fair value. Stock-based compensation is charged to operations over the tranche's vesting period and the offset is credited to contributed surplus. Consideration received upon the exercise of stock options is credited to share capital and the related contributed surplus is transferred to share capital.

Consideration received upon the exercise of stock options is credited to share capital and the related contributed surplus is transferred to share capital.

During the six months ended December 31, 2011 stock-based compensation amounted to $207,852 vs. $889,093 in 2010. The decrease 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) in that period.

Amortization

Amortization costs were $11,817 during the three month period ended December 31, 2011 vs. 23,451 for the same period in 2010. For the six months ended December 31, 2011 amortization costs were $23,590 compared to $46,403 for the same period in 2010.

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 December 31, 2011 the Company held $Nil (2010 - $508,007) of cash and cash equivalents in US dollars.

Liquidity and Capital Resources

The Company had cash and cash equivalents of $153,202 at December 31, 2011 compared to a cash balance of $1,721,524 at June 30, 2011. The Company's cash balance was further decreased during this quarter as no significant sales revenues have been generated at this time. The Company has a working capital deficiency of $1,474,554 at December 31, 2011 compared to working capital deficiency of $185,932 at June 30, 2011. The Company now has insufficient cash to cover its known operating expenditures for the next 12 months and will have to raise money through equity financings (See Subsequent Events). 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 is also engaged in talks with the supplier of the STAR-ISMS® unit with respect to more favourable 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 and does not suffer from any defaults on its lease commitments.

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 December 31, 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)	189,981,978
Share Purchase Warrants	67,736,646 (exercise prices ranging from $0.20 cents to $0.50)
Stock Options	13,936,828 (exercise prices ranging from $0.10 to $0.32 with expiry dates up to February 24, 2016 and various graded vesting provisions).

(i) On September 20, 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 $115,700 in cash were paid in connection with this private placement.

(ii) On June 17, 2011, the Company confirmed that 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.

Significant Accounting Policies

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS') 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

Future IFRS changes

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods after December 31, 2010 or later periods. Many are not applicable or do not have a significant impact to the Company. The following have not yet been adopted and are being evaluated to determine the resultant impact on the Company.

(i) IFRS 9 Financial Instruments was issued by the IASB in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The IASB has proposed to move the effective date of IFRS 9 to January 1, 2015.

(ii) IFRS 10 Consolidated Financial Statements was issued by the IASB in May 2011. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces the consolidation requirements in SIC-12 Consolidation—Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

(iii) IFRS 11 Joint Arrangements was issued by the IASB in May 2011. IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities - Non-Monetary Contributions by Venturers, and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

(iv) IFRS 12 Disclosure of Interests in Other Entities was issued by the IASB in May 2011. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

(v) IFRS 13 Fair Value Measurement was issued by the IASB in May 2011. IFRS 13 establishes new guidance on fair value measurement and disclosure requirements for IFRSs and US generally accepted accounting principles (GAAP). The guidance, set out in IFRS 13 and an update to Topic 820 in the FASB's Accounting Standards Codification (formerly referred to as SFAS 157), completes a major project of the boards' joint work to improve IFRSs and US GAAP and to bring about their convergence. The standard is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

(vi) IAS 1 Presentation of Financial Statements was amended by the IASB in June 2011 in order to align the presentation of items in other comprehensive income with US GAAP standards. Items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012.

RECONCILIATION FROM CANADIAN GAAP TO IFRS

As stated in Statement of Compliance (note 2), these unaudited consolidated financial statements prepared in accordance with IFRS.

The policies set out in the Significant Accounting Policies section have been applied in preparing the financial statements for the six month periods ended December 31, 2011, the comparative information presented in these financial statements for the year ended June 30, 2011 and in the preparation of an opening IFRS balance sheet at July 1, 2010 (the Company's date of transition).

The Company has followed the recommendations in IFRS-1 First-time adoption of IFRS, in preparing its transitional statements. IFRS-1 provides specific one-time choices and mandates specific one-time exceptions with respect to first-time adoption of IFRS.

(a) Business Combinations

IFRS 1 allows that a first-time adopter may elect not to apply IFRS 3 Business Combinations retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has taken advantage of this election and has not applied IFRS 3 to business combinations that occurred before July 1, 2010.

(b) Share-based payment transactions

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 Share-based Payment to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the date of transition to IFRS, July 1, 2010. The Company did not to apply IFRS 2 to awards that were granted on or before November 7, 2002 and granted after November 7, 2002 and vested by July 1, 2010.

(c) Property and equipment and intangibles

IFRS 1 permits first-time preparers to measure selected assets at fair value and use that fair value as deemed cost of those assets on the transition date. The Company has chosen not to utilize this optional exemption and continue to use the cost model for its property and equipment and intangibles as of the date of transition to IFRS.

Additionally, the Company has applied the following mandatory exception as at the transition date.

Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of July 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

In preparing its opening statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position and financial performance is set out in the following tables and the additional notes that accompany the tables.

There are also no material differences between the cash flow statement presented under Canadian GAAP and that presented under IFRS for the period ended December 31, 2010 and for the year ended June 30, 2011.

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 unpaid salary compensation for its officers, and monthly compensation accrued for its non-executive directors, advisory board members and committee chairpersons, that have accumulated over the past several years. The Company's non-executive 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. 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.

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, $7,500 in cash and $7,500 in accruals.

At December 31, 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 December 31, 2011:

Due to Directors - $259,000 (2010 - $176,250), Due to Advisory Board members - $100,000 (2010 - $100,000) and Due to Committee Chairpersons - $106,000 (2010 - $84,000). Due to Chief Technology Officer and member of the Board of Directors - $6,000 (2010 - $2,576), which amount resulted from the accrual of salary, and Due to Chief Executive Officer and Chairman of the Board of Directors - $1,119,866 (2010 – $1,199,866) of which the terms on $1,000,000 was modified after year end.

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 formerly controlled by an officer who is also a director of the Company - $Nil (2010 - $28,090).

Included on the statement of operations for the six month period ended December 31, 2011, in general and administrative expenses is $363,000 (2010 - $290,000) in fees paid and accrued to directors and officers of the Company; this includes rent expense of $72,000 (2010 - $70,000) that was paid to a corporation formerly controlled by an officer who is also a director of the Company. An amount of $141,000 (2010 - $141,000) was paid to the Company CEO.

Board of Directors fees of $32,000 (2010 - $36,000) were accrued. Advisory Board fees of $31,000 (2010 - $31,000) and were accrued. Chairperson fees of $12,000 (2010 - $12,000). Included in research and development is $90,000 (2010 - $90,000) in fees paid and accrued to the Chief Technology Officer and a director of the Company. Payments to the Chief Operating Officer $75,000 (2010 - $Nil). Professional fees of $36,250 (2010 – $24,000) were paid to the Chief Financial 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

Financial Instruments

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

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

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

Attributable transaction costs are recognized in profit or loss when incurred. FVTPL are measured at fair value, and changes are recognized in profit or loss.

Held-to-maturity (“HTM”)

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company’s management has the positive intention and ability to hold to maturity. These assets are measured at amortized costs using the effective interest method. If there is objective evidence that the asset is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted on an active market. Such assets are initially recognized at fair value plus any direct attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment loss.

Available for sale (“AFS”)

Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in profit or loss.

Financial liabilities

Financial liabilities are classified into one of two categories:

- Fair value through profit or loss;
- Other financial liabilities.

Fair value through profit or loss

This category comprises derivatives, or liabilities, acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in profit or loss.

Other financial liabilities

This category is recognized at amortized cost.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been impacted.

For all financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of receivables, where the carrying amount is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date of impairment is reversed does not exceed what the amortized cost would have been had the impairment not be recognized.

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

Financial Instrument	Classification
Cash and cash equivalents	FVTPL
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Due to related parties	Other liabilities
Other payables	Other liabilities
Finance lease obligation	Other liabilities

The Company had no other comprehensive income or loss transactions during the period ended December 31, 2011.

Subsequent Events

- On January 24, 2012 the Company announced that its board of directors had received a shareholder requisition to call a special meeting of shareholders. The stated purpose of the meeting is to consider, and if thought advisable, the removal of Mr. Dale F. Sparks as a director and officer of the Company. The shareholders making the requisition have proposed that Mr. Pierre J. Jeanniot, O.C., C.Q., formerly President and CEO of Air Canada and Director General and Chief Executive Officer of the International Air Transport Association (“IATA”), be elected in place of Mr. Sparks. These shareholders (“the Requisitioning Shareholders”) state that they hold approximately 11.5 % of Star’s outstanding common shares.

The Board has considered the request and accepts that the Requisitioning Shareholders hold sufficient shares of the Company to be able to requisition a meeting under the Business Corporations Act (Ontario). The meeting is scheduled to be held April 13, 2012

● On January 30, 2012 the Company announced that final DO-160E testing on its STAR-ISMS® Generation 2 Unit (“G2”) had been completed.RTCA-DO-160E qualification testing is an essential element of STC application, required for installation of the STAR-ISMS® on a commercial aircraft. On February 3, 2012 the Company announced a reorganization of its Research and Development function. As the Company transitions from being primarily a research and development company into full commercialization of its STAR-ISMS® In-Flight Safety Monitoring System, the Company announced that, while still an integral part of the strategic plan, the Research and Development area will report directly to the Chief Operating Officer, Mr. John Thorburn, P. Eng. Mr. Dale F. Sparks is no longer Chief Technology Officer but remains a director of the Company.

• On February 24, 2012, the Company announced that, subject to TSX Venture Exchange approval, it had closed subscriptions to a non-brokered private placement of 15,200,000 units of the Company at an issue price of $0.10 per unit for gross proceeds totaling $1,520,000. 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 $0.30 per share for a term of 24 months from the closing date. Finder's fees in the amount of $152,000 in shares were paid in connection with this private placement.

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 final stages of the 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 and differing legal systems. Business practices and the significant added expense of travel and accommodation for Company personnel required to be onsite for sales, testing and installation duties also can add a degree of complication.

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 six month period ended December 31, 2011.