Star Navigation Systems Group Ltd.
Management's Discussion and Analysis
For the years ended June 30, 2012 and June 30, 2011

1. Date – October 23, 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 consolidated audited financial statements for the years ended June 30, 2012 and June 30, 2011. 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 October 23, 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. Ongoing turmoil in the Middle East resulted in some restriction of the Company's efforts there, although the Company did record a sale to MidWest (Egypt) Airlines ("MidWest"). On June 22, 2011, the Company entered into an agreement with Paradigm Services Limited ("Paradigm"), part of the European Aeronautic Defense and Space Company EADS N.V. ("EADS") group of companies, to market the Company's In-Flight Safety Monitoring System ("STAR-ISMS®") as part of the Airborne Data Service ("ADS") being offered by Paradigm and the Company to the commercial aviation community. It is primarily focused on the Middle East, North America and Europe at the present time. This is a new venture and although viewed as a significant opportunity by the Company, is subject to the risks and uncertainties inherent in any new undertaking.

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 are all factors to be taken into consideration. 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’. 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 entered into an agreement with Paradigm a unit of Astrium Services to market and sell the 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., a wholly owned subsidiary of Esterline Corporation ("CMC"), to integrate Star software with CMC's PilotView® Electronic Flight Bag ("EFB type 2") for sale to their existing customers. This agreement has evolved over the past 2 quarters based on CMC input and a desire to create a beta version of the software for the first calendar quarter of 2013. CMC are currently reviewing Star's technical proposals ahead of a Technical Interchange to create the Interface Specification. Once Star has created a functioning beta version of the software a joint review will be conducted and a go/no-go decision will be made.

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 in three different formats described as the heartbeat, tweets and continuous alerts over the Iridium satellite constellation. The heartbeat indicates basic location, altitude, flight number and airspeed and is sent every minute. Tweets are delivered by the Short Burst Data Iridium module and sends information every 5 minutes based on the minimum information required to populate the Data Management Centre's (the "DMC") standard reports and any additional parameters specified by the customer. If the tweet data exceeds the specified parameter limits then the Iridium voice module is activated and sends down a continuous stream of data for a predetermined time before and after the triggering event.

The system will continue to stream information and because of the GPS system, continuous positioning of the aircraft will be shown via the Data Management Centre ("DMC") 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 senior 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-up 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, 2012, 2011 and 2010.

	Year ended June 30, 2012 (IFRS)	**Year ended June 30, 2011** (IFRS)	**Year ended June 30, 2010** (CGAAP)
Total revenues	$72,672	$98,591	$153,849
Net Loss	$(3,059,143)	$(3,758,212)	$(4,176,218)
Total assets	$1,189,360	$2,734,324	$2,517,752
Total long term liabilities	$65,167	$Nil	$14,978
Cash dividends declared	$Nil	$Nil	$Nil

The Company continues to experience significant losses as it moves toward full commercialization of its STAR-ISMS® product. In the fiscal year ended June 30, 2012 the Company sustained a loss of $3,059,143 compared to $3,758,212 for 2011. Losses for the last 3 years (2012, 2011 and 2010) are averaging $3,664,524 per year. 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 work in the past year has been focused on consolidating the changes in the software from the Windows operating platform to the Linux platform. Another factor has been the additional requirement to adopt the software to interface with the Astrium Graphical User Interface ("GUI") and the new Star Server Unit G2 ("SSU G2") box.

The Company's focus and attention is now and will continue to be, very strongly directed towards commercialization of its core product, the STAR-ISMS®, the development and roll-out of the ADS, closing further sales with commercial airlines and 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 R&D and operational expenses that are needed to bring this project to fruition.

As can be seen from the table above, total assets for the years ended 2011 and 2010 were fairly close in value as the Company's cash levels were sufficient to operate the Company. Assets in the fiscal year ending June 30, 2012 have dropped to less than half of 2011. The Company completed a private placement in February 2012, which raised $1,520,000. This occurred during the second half of fiscal 2012, as cash was required to fund the purchase of additional STAR-ISMS® units for general operating expenses and for costs attributable to the certification costs for MidWest.

The Company has minimal long-term debt as at June 30, 2012 as it entered into a lease to update its computer equipment.

Overview and Overall Performance

The Company's financial condition has declined since June 30, 2011 as the cash position of the Company continues to decline in the wake of no commercial sales to date. The cash balance at June 30, 2012 was $67,262 compared to June 30, 2011 when the balance was $1,721,524. Assets are down by $1,544,964 since June 30, 2011. This is largely due to the cash balance which has dropped by $1,654,262 since June 30, 2011. This decrease, which has been offset marginally by the private placement completed in February 2012, was a result of Star's average monthly burn rate of $150,000, payments made to the supplier of Star's SSU-G2 box upon its completion, and payments made for legal costs which included the Paradigm commercial agreement completed in June 2011.

The Company has also paid $45,000 towards securing a Supplemental Type Certificate ("STC") for a Boeing 737-800 in connection with its sales agreement with MidWest related to an aircraft leased by Midwest to Shaheen Air International ("Shaheen").

Accounts receivable are down by $9,100 since June 30, 2011. Prepaid expenses are down $201,754 since June 30, 2011 due to the reallocation of costs associated with the testing equipment which is now complete and has been amortized monthly since March 2012.

Inventory is up by $247,986 as Star now has 13 units of its STAR-ISMS® in stock and ready for sale. Capital Assets have increased by $108,751 since June 30, 2011, as the Company has purchased new computer equipment.

Intangible assets have also increased as the final costs associated with its testing equipment have been finalized in the current year. Amortization of this equipment started in March 2012. The Company has also upgraded its website in the current year.

Accounts payable and accrued liabilities are down by $101,567 from June 30, 2011 as the Company paid significant legal fees incurred in association with the completion of the Paradigm agreement in June 2011, as well as a significant amount of other payables.

Amounts due to related parties have dropped by $330,674 from June 30, 2011 due to some of the Company director's utilizing some of their accrued compensation in order to exercise options to purchase common shares of the Company. A total of $348,000 was re-invested in the private placement that was completed in February 2012. Another former director also drew down on an accrued balance accumulated by $45,000 for the exercise of options held.

The Company's share capital continues to rise. 2012 saw an increase of $1,574,020 in total value over 2011. Total common shares outstanding rose from 189,594,978 at June 30, 2011 to 207,240,078 at June 30, 2012. The Company completed one private placement in February 2012 and subsequently has completed a second equity raise in August 2012, as well as a debt conversion which has reduced more of its short-term debt (See Subsequent Events).

Results of operations continue to show losses at June 30, 2012. However, the Company is now confident that as it moves from a "development stage" company to a "commercial" company with a fully viable product that it will be able to turn the tide on the consistent losses. It will continue to invest money in the development of its STAR-ISMS® unit and the ADS service. The Company and Paradigm are now involved in the first ADS Pilot project, which began in August 2012. Validation and Verification Testing, Stages One, Two and Three are complete. Paradigm has the DMC fully operational. As stated, the Company's focus and attention is now very strongly directed towards the commercialization of its core product STAR-ISMS® and the ADS through the Paradigm agreement, and working on the expansion of the Company's product line and services. The process for qualifying the SSU G2 box has been completed and it is ready for shipment to customers. Teams from both Star and Paradigm continue to prepare for the launch of the ADS.

The Company entered into agreements with respect to sales of its STAR-ISMS® to MidWest and a trial with Shaheen. MidWest is the first customer for the STAR-ISMS®. Star received the Transport Canada ("TC") approved STC for the installation of the STAR-ISMS® on the Midwest 737-800 aircraft in April 2012. The Midwest sale is proceeding but delays have been encountered due to obtaining the required STC validation for Egypt. Currently Star and MidWest are attempting to secure the STC validation from the Egyptian Civil Aviation Authority (the "ECAA") through TC. The Company has been advised that it can take in excess of 3 months.

Once the STC has been validated the Company can pursue the required Engineering Change Order ("ECO") to make the necessary changes on the aircraft to accommodate the STAR-ISMS® box. Timelines on the STC and ECO are difficult to predict and with availability of the aircraft on the ground for the installation always an issue, forecasting a firm starting date for the service is difficult.

Due to scheduling issues resulting from significantly greater than normal operational demands on Shaheen's fleet, work on obtaining the required STC approval for the trial was intermittent due to the sporadic availability of aircraft. Shaheen has now decided to upgrade its fleet and sell its 737-200/300 aircraft. As a result, the original agreement with Shaheen has been terminated and discussions are underway with respect to its new aircraft. At this time no significant progress has been made on this prospective sale.

The sales 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.

The Company 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. Following the annual audit in January 2012, BSI Group Canada Inc. ("BSI') (the certifying organization) recommended Star for continued certification.

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 continue to be marketed. 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 ADS sales team.

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. There is no definitive progress to date and no indication of movement on the part of the Indian authorities. Further development of this market may have to await full commercial rollout of ADS.

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 twelve month period ended June 30, 2012, the Company attended airshow's in Paris, Farnborough, U.K. and Dubai, and the National Business Aviation Association show in Las Vegas.

Operational Milestones

During the years ended June 30, 2012 and June 30, 2011, the Company has made the following progress towards achieving its objectives:

- The ADS team signed an agreement with Air North on May 24th 2012 to participate in a Pilot Project demonstrating the capabilities of the ADS on one of their Boeing 737-500 aircraft. The serialized STC was approved on August 13th 2012 only 3 months after signing the agreement and 6 weeks after the aircraft went into a major retrofit for service. The Pilot Project is continuing as planned, with expectations of being complete by mid to late November. One of the benefits of the Pilot Project is that we will be able to quickly install the ADS service on future aircraft even independent of the availability of critical equipment manuals.

- The Company hired Mr. John Thorburn as Chief Operating Officer (the "COO') of the Company in February 2011. Mr. Thorburn Is a 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).

- The Company has also hired a Quality Manager, reporting directly to the Chief Executive Officer (the "CEO"). The Quality Manager 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 TC 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 is one of the Company's top priorities.

This encompasses 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.

- CMC and Star are continuing to develop a joint product based on the CMC Tacview® and Pilotview® Electronic Flight Bags. Star has presented CMC with the interface design and development proposals and is currently waiting on CMC feedback to complete the joint development requirements specifications. The target date for a beta software package is the first calendar quarter of 2013.
- A significant milestone was achieved during the 3rd quarter of fiscal 2012 in relationship to the integration of the STAR-ISMS® software with the Astrium DMC and their customer GUI. To accomplish this, an additional module was added to the Star software that provided a seamless transfer of data to the Astrium DMC.
- The Company has reviewed the capability of its current ground station services to serve those of its customers who will not be part of the ADS service. This review indicated that 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 identified and acquired 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 has installed new servers which are fully operational and in service. These servers will be used to enhance the internal R&D of the SSU G2 system and future work on the G3 box and the CMC partnership on EFB compatible software. As each customer will require specific configurations for their fleet Star will host a mirrored DMC in Toronto to perform the function of a development environment. This will allow the changes to be tested for system compatibility with the live DMC and the GUI visible to the customer before formal release.

  If the company finds itself requiring a Ground Station for the support of customers outside the ADS program there is now more than enough capacity for Star to develop and complete the required software in Toronto. At the present time we do not anticipate having to pursue this type of development. Our main focus will be to use the servers for improved document management and software development tools.

- Discussions continue with Pakistan International Airlines Corporation ("PIA").

- In China, Star understands that its STAR-ISMS® will be considered for Phase II of the Comac 919 project. Due to delays in the project Star has not been active in that area but continues to maintain and enhance its relationships with its contacts in China. There has been no change to the status of this project at June 30, 2012.

- Star continues discussions with other entities in China.

- The Company signed a sales agreement with Midwest and the required STC has been approved by TC. As mentioned above Star is awaiting the issuance by the ECAA of the required STC validation. On receipt we can move forward on the ECO and scheduling the box installation.

- In July, 2012, the Final Report of the intergovernmental working group formed to seek solutions to problems stemming from the Air France AF-447 loss 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 ADS 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 R&D 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, being 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.

  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:

- To successfully complete our pilot project with Air North and realize the additional sales for their fleet of 737-400/500 aircraft.

- Continue to execute the commercialization of the ADS with Paradigm and develop new business opportunities in the field of aircraft critical data collection, analysis and transmission.

- Continue to move forward on the CMC software integration development for the EFB type 2 models of Pilotview® and Tacview®. The target date for a beta version is the first calendar quarter of 2013. Based on the performance of the beta version a business case will be presented to the senior management of CMC and Star by the end of calendar Q1 2013.

- To support the fielded systems Star has decided to focus on partnering with an AMO (Approved Maintenance Organization) to provide the required support. This will involve developing a process involving our box supplier, Star and the AMO partner. The target for the implementation of this agreement is between the final calendar quarter of 2012 and first calendar quarter of 2013. The benefit of this agreement will be the reduction on the demands of Star's manpower resources in acquiring AMO status and the more timely availability of after sales support.

- 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 the Quality Manager 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 R&D efforts to add functionality with respect to complete data download at the end of flight through Wi Fi and GSM. Continuing to update the technology road map to compete in a wider range of markets.

- 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.

- Expansion of the revenue stream from existing STAR-ISMS® ,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. The information contained herein is drawn from interim financial statements of the Company for each of the aforementioned eight quarters.

(Expressed in $)

Three months	2012	2012	2011	2011
Period Ending	**June 30**	**March 31**	**December 31**	**September 30**
Revenue	15,940	18,841	19,623	18,268
Working Capital/(Deficit)	(1,403,649)	(586,787)	(1,474,554)	(819,142)
Expenses	749,423	772,982	823,379	807,826
Net Loss	(691,702)	(752,206)	(810,607)	(804,628)
Net Loss (per Share)	(0.02)	(0.012)	(0.004)	(0.004)

	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)	(185,932)	(443,455)	64,623	530,848
Expenses	1,640,451	137,056	750,657	1,311,424
Net Loss	(1,544,008)	(133,072)	(746,290)	(1,334,842)
Net Loss (per Share)	(0.02)	(0.000)	(0.004)	(0.005)

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 2012 were influenced primarily by the completion of a private placement that was completed in Q3 of fiscal 2012.
- For fiscal 2012 working capital has remained in a negative position for the whole year as the Company only completed one private placement in February 2012.. The Company also at that time reduced its current liabilities such as accounts payables and accrued liabilities.
- Net losses for the years ending June 30, 2012 and June 30, 2011 were $3,059,143 and $3,758,212.

RESULTS OF OPERATIONS
Comparison of the twelve month periods ended June 30, 2012 and June 30, 2011.

The following commentary compares the audited consolidated financial results for the years ended June 30, 2012 and June 30, 2011.

Overview:

The Company has a loss of $3,059,143 for the year ended June 30, 2012 vs. a loss of $3,758,212 for 2011. The decrease in loss of $699,069 for the year ended June 30, 2012 is due to many variances including but not limited to an increase in R&D costs. Decreases occurred in general and administration ("G&A") costs, marketing and promotional costs ("M&P"), foreign exchange costs and stock-based compensation.

The Company is confident that it will continue to build on the increased market awareness and that with the start of the ADS pilot project with Astrium 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.

Revenues:

Revenues for 2012 declined by $25,919 over 2011.

These revenues fluctuate from period to period depending on the usage of the STAR-ISMS® Lite devices in the aircraft and land vehicles. The decrease in air time from fielded units is a result of the rundown of North Atlantic Treaty Organization ("NATO") activity in Afghanistan and the termination of work at one of our land vehicle customers.

The Company did not sell any of its STAR-ISMS® Lite units in 2012 and only sold two (2) of its STAR-ISMS® Lite units in 2011. 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. Previously, the Company has effectively been offering 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 and the ADS service comes on line.

Research and Development:

R&D expenses have gone up by $274,161 over 2011 (2012 - $1,038,675 vs. 2011 - $764,514). This 36% increase was driven by an increase in wage costs of $172,575 (2012 - $689,010 vs. 2011 - $516,435), an increase of $28,326 in materials and other costs needed to complete the certification of the STAR-ISMS® SSU G2 box, and an increase in amortization costs of $83,926 (2012 - $130,633 vs. 2011 - $46,707).

The payroll increase is due to the hiring of three (3) new I.T. resources in October 2011, and salary increases to keep current I.T. staff at par with comparable salaries in the industry. Salaries have increased by $157,575 in 2012 over 2011.

The Company has now started to amortize the STAR-ISMS® and its peripherals that it has acquired and will amortize this equipment on a straight-line basis over three (3) years. The Company also entered in to a lease for new computer equipment in May 2012.

General and Administrative:

G&A expenses have decreased by $102,912 (2012 - $1,496,229 vs. 2011 - $1,599,141) for this fiscal year. 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 have decreased this year due to the adjustment of fees of a director who resigned in February 2011. The Company now has five (5) directors (four (4) of whom are non-executive) for whom it is accruing monthly fees, which is more than it had in 2011. Strategic Advisory Board fees accrued have dropped by $30,833 as the Company has disbanded the Strategic Advisory Board effective January 31, 2012. Audit Committee Chairperson accrued fees remained the same in 2012 as in 2011.

Rent expense has increased this year by $26,044 (2012 - $176,024 vs. 2011 - $149,980). Rent expense is $12,000 per month due to an increase in office space occupied by the Company and due to the costs of its Atlanta office.

The increase is a direct result of an increase in property tax and utilities costs for which the Company is responsible.

G&A consulting costs have decreased by $39,950 in 2012 (2012 - $30,000 vs. 2011 - $69,950) In 2011 the Company engaged the services of an executive search firm to help it fill the position of Chief Operating Officer in 2011, which totalled $30,000. Fees paid to other consultants have decreased in the current year.

G&A wages have increased by $163,488 in 2012 (2012 - $526,419 vs. 2011 - $358,931) 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 additions added $217,500 to G&A wages compared to $71,250 in 2011. The balance of the increase was due to office salaries paid.

Regulatory filing fees decreased in this fiscal year by $4,732, while insurance expense has increased by $19,135 due to increases for health insurance expense as the Company continues to add employees and for Directors and Officers (“D&O”) insurance as the Company increased the liability limit on its D&O policy. General Liability insurance costs also increased.

Office expense has increased by $14,955 over 2011 (2012 - $40,823 vs. 2011 - $25,868). Day to day operating costs have increased as the Company continues to grow.

Professional fees have decreased in 2012 by $264,247 (2012 - $381,804 vs. 2011 - $646,050). The decrease occurred as a result of legal fees decreasing by $299,450 from 2011. The legal fee decrease was driven by the Company having completed the Astrium negotiations in the June 2011 year-end which cost the Company $250,465. Increases occurred in accounting (internal and external). Internal accounting fees increased by $18,750 due to fee increases in the year. External accounting fees increased by $28,452 due to the Company engaging a third-party to examine the reasonableness of the royalty agreement with the patent holder which cost $22,000, the balance of the increase were fees charged for audit work done on compliance related issues and assistance with the Company’s conversion to IFRS.

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

The Company remains committed to the defense of its intellectual property from infringement and to that end has engaged a firm in Toronto to advise it With respect to intellectual property issues.

Marketing and Promotion:

M&P costs have been kept under control and have decreased by $11,721 in 2012 over 2011 (2012 - $401,618 vs. 2011 - $413,339). The minimal decrease was primarily driven by a drop in consultant’s costs and travel while investor relations costs increased. Investor relations costs increased in this period by $19,545 over 2011, and total travel expense is down by $26,345.

The Company started to broaden its marketing initiatives overseas and in the United States. It has focused more on getting the ADS pilot project up and running, funneling more resources to that and has carefully watched what it spent on Company travel. 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 especially after completion of the ADS pilot project.

The Company still maintains its satellite office in Atlanta, Georgia 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 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 $8,342 for 2012 (2012- $258,859 vs. 2011 - $267,201).

Investor relations costs have increased in 2012 as the Company engaged a new investor relations firm, First Canadian Capital ("FCC") to market and promote the Company to shareholders and investors.

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. In December of 2011, the shareholders approved an increase to 35,000,000 common 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 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.

During 2012 stock-based compensation amounted to $193,273 vs. $900,174 in 2011. The decrease in stock-based compensation was due to the changeover to IFRS. This change which the Company instituted as of July 1, 2010 changes how the stock-based compensation on options that the Company grants is calculated.

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, 2012 the Company held $36,855 (2011 - $492,927) of cash and cash equivalents in US dollars.

Liquidity and Capital Resources

The Company had cash and cash equivalents of $67,262 at June 30, 2012 compared to a cash balance of $1,721,524 at June 30, 2011. The Company's cash balance continues to decrease during this fiscal year-end as no significant sales revenues have been generated at this time. The Company completed an equity raise in late February 2012. Star completed a non-brokered private placement of 15,200,000 units (the "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 common share of the Company (a "Warrant Share") at a price of $0.30 per Warrant Share for a term of 24 months from the closing date. Finder's fees amounting to 1,520,000 common shares and valued at $136,800 has been paid in connection with this private placement. The Company now has a working capital deficiency of $1,403,649 at June 30, 2012 compared to a working capital deficiency of $182,932 at June 30, 2011. Subsequent to year-end the Company completed another private placement that raised $2.088m (see Subsequent Events) and now allows the Company to cover its known operating expenditures for the next 12 months until June 30, 2013. The Company will have to continue to raise money through equity financings. 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 reducing the amount of capital tied up in inventory and to reduce the cash to cash cycle. Other parts of the contract are being modified to flow down requirements from the ADS contract to the vendor and to ensure the Company's quality management system is integrated with our supply chain.

Future work with our supplier involves a comprehensive value engineering study to improve reliability and reduce costs as part of our continuous improvement program. 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 June 30, 2012 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 First Preferred Shares	615,000
Common Shares (i,ii,iii)	207,240,078
Share Purchase Warrants	69,435,880 (exercise prices ranging from $0.20 cents to $0.50)
Stock Options	15,060,728 (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 (the “Units”) of the Company at an issue price of $0.12 per unit for gross proceeds totaling $1,305,000. Each unit consists of one common share and one common share purchase warrant (a "Warrant"). Each warrant entitles the holder to purchase one additional common share of the Company at a price of $0.20 per Warrant 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 22, 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 totalling $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.

(iii) On February 27, 2012, the Company announced that it had closed subscriptions to a non-brokered private placement of 15,200,000 units (the “Units”) of the Company at an issue price of $0.10 per unit for gross proceeds totalling $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 Warrant Share for a term of 24 months from the closing date. Common shares totaling 1,520,000 valued at $136,800 were issued in connection with this private placement. All securities issued in the offering and any shares issued upon exercise of Warrants are subject to a four month statutory hold period from the date of issuance.

Significant Accounting Policies

The consolidated financial statements are prepared in accordance with 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 Ventures, 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 audited 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 fiscal year-ended June 30, 2012, 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 apply IFRS 2 to awards that were granted on or before November 7, 2002 and to those granted after November 7, 2002, which were vested by July 1, 2010.

(c) Derecognition of financial assets and liabilities

IFRS 1 allows, but does not require, first-time adopters to apply IFRIC 19 Extinguishing financial liabilities with equity instruments that occurred before the date of transition to IFRS. The Company has taken advantage of this election and has not applied IFRIC 19 to extinguishments of financial liabilities with equity instruments that occurred before July 1, 2010.

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.

Related Party Transactions

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

Advisory Board members were business people with expertise in the Aviation industry who helped 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. As of January 31, 2012, the Company has disbanded the Strategic Advisory Board.

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 following rates; Audit Chairman - $2,000 per month accrued, Corporate Governance Chairman - $1,000 per month paid, Human Resources Chairman - $1,000 per month accrual.

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. Such amounts are non-interest bearing and unsecured.

At June 30, 2012, 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, and CFO.

The following balances are due to related parties as of June 30, 2012:

Due to Directors - $156,000 (2011 - $227,000, 2010 - $152,250), Due to Advisory Board members - $92,676 (2011 - $100,000, 2010 - $100,000) and Due to Committee Chairpersons - $30,000 (2011 - $94,000, 2020 - $72,000). Due to Chief Technology Officer and member of the Board of Directors - $6,000 (2011 - $12,000, 2010 - $95,576), which amount resulted from the accrual of salary, and Due to Chief Executive Officer and Chairman of the Board of Directors - $990,749 (2011 – $1,174,866, 2010 - $1,264,866).

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.

Included on the statement of operations for the year-ended ended June 30, 2012, in G&A expenses is $690,167 (2011 - $656,000) in fees paid and accrued to directors and officers of the Company. An amount of $282,000 (2011 - $282,000) was paid to the Company CEO.

Board of Directors fees of $59,000 (2011 - $74,750) were accrued. Advisory Board fees of $31,167 (2011 - $62,000) and were accrued. Chairperson fees of $18,000 (2011 - $18,000). Included in research and development is $107,000 (2011 - $180,000) in fees paid and accrued to the Chief Technology Officer and a director of the Company (Dale Sparks was terminated from his position as Chief Technology Officer as February 1, 2012 and resigned as a director of the Company on April 13, 2012). Payments to the Chief Operating Officer of $150,000 (2011 - $71,250). Professional fees of $70,000 (2011 – $52,500) 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.

See also Notes 6, 9, and 15(c) of the audited consolidated financial statements.

Key management personnel are comprised of the Company's directors and executive officers. In addition to their salaries, key management personnel also participate in the Company's share option program (Note 11).

	2012	2011
Salaries and wages	$618,080	$784,700
Stock based compensation	15,483	198,950
Total	$633,563	$983,650

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 year ended June 30, 2012.

Subsequent Events

The Company completed a non-brokered private placement of 26.1 million units (the “Units’) of the Company at an issue price of eight cents per unit for gross proceeds totaling $2,088,000. Each unit consists of one common share and one common share purchase warrant (a “Warrant”). Each Warrant entitles the holder to purchase one common share of the Company (a “Warrant Share”) at a price of $0.20 cents per Warrant Share for a term of 60 months from the closing date. Finders' fees in the amount of $189,850 were paid in Units in connection with this private placement. Due to related parties in the amount of $128,000 were converted into common shares as part of this 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 required staffing levels, equipment update and replacement, sales activity and required R&D activities. These 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, in conjunction with the ADS service and Paradigm. 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, including 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 such as the ADS service, the Company is increasing its North American sales presence, refining its sales process, and making greater use of video conferencing.

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 and development of the next generation G3 systems will commence shortly.

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 TC to issue approvals such as STC's, required whenever the Company is installing equipment aboard an aircraft. While TC 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.

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 the ADS project 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 ("DC&P") and internal controls over financial reporting ("ICFR"), as defined in NI 52-109.

As part of our corporate governance practices, ICFR and 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 IFRS.

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 for the year ended June 30, 2012.