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

Consolidated Financial Statements

For the Years Ended June 30, 2010 and 2009

(Amended and refiled - see Note 19)

Collins Barrow
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AUDITORS' REPORT

To the Shareholders of
Star Navigation Systems Group Ltd.
(A development stage company)

We have audited the consolidated balance sheets of Star Navigation Systems Group Ltd. (A development stage company) as at June 30, 2010 and 2009 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at June 30, 2010 and 2009 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

Our previous report dated October 8, 2010 has been withdrawn and the consolidated financial statements have been revised as explained in Note 19.

Collins Barrow Toronto LLP

Licensed Public Accountants
Chartered Accountants
October 8, 2010 (except for notes 3, 16 and 19, which are dated January 31, 2011)
Toronto, Ontario

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Star Navigation Systems Group Ltd. **Amended and Refiled**

(A development stage company)
Consolidated Balance Sheets
As at June 30, 2010 and 2009

	2010	2009
Assets		
Current		
Cash and cash equivalents	**$ 2,022,926**	$ 7,232
Accounts receivable (Note 14(c))	**150,189**	41,689
Inventory (Note 3)	**-**	96,195
Prepaid expenses and sundry receivables	**88,681**	90,778
	2,261,796	235,894
Equipment (Note 4)	**247,093**	52,917
Licenses (Note 5)	**8,863**	12,609
	$ 2,517,752	$ 301,420
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 11)	**$ 365,721**	$ 696,461
Current portion of capital lease obligation (Note 6)	**2,534**	2,010
Due to related parties (Note 7)	**1,709,782**	1,854,830
Other payables (Note 8)	**196,000**	311,508
Deposit on share subscription	**-**	59,500
	2,274,037	2,924,309
Long term portion of accounts payable and accrued liabilities (Note 11)	**13,423**	42,798
Capital lease obligation (Note 6)	**1,555**	3,909
	2,289,015	2,971,016
Shareholders' Equity		
Capital stock (Note 9)	**22,006,725**	18,009,257
Contributed surplus (Note 10)	**5,286,155**	2,693,622
Deficit	**(27,064,143)**	(23,372,475)
	228,737	(2,669,596)
	$ 2,517,752	$ 301,420

Going Concern (Note 1)

Commitments and Contingencies (Note 15)

Subsequent Event (Note 18)

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

See accompanying notes

Star Navigation Systems Group Ltd.

Amended and Refiled

(A development stage company)
Consolidated Statements of Operations and Deficit
Years Ended June 30, 2010 and 2009

	2010	2009
Revenue (Note 17)	**$ 153,849**	$ 457,405
Expenses		
Cost of sales	**138,640**	389,810
General and administrative	**905,547**	988,264
Research and development	**488,558**	707,340
Marketing and promotion	**438,127**	408,504
Professional fees	**455,179**	479,472
Stock-based compensation	**1,127,650**	590,966
Foreign exchange (gain) loss	**(25,128)**	5,078
Amortization	**37,097**	51,563
	3,565,670	3,620,997
Loss before the undernoted items and income taxes	**(3,411,821)**	(3,163,592)
Other income (expenses)		
Write-down of inventory (Note 3)	**(96,195)**	(161,094)
Gain on settlement of debt (Note 11)	**159,934**	346,511
Lawsuit settlement (Note 11)	**(15,000)**	-
	48,739	185,417
Net loss	**(3,363,082)**	(2,978,175)
Deficit, beginning of year	**(23,372,475)**	(20,394,300)
Modification of warrants (Note 10)	**(328,586)**	-
Deficit, end of year	**$(27,064,143)**	$(23,372,475)
Loss per share		
Basic and diluted	**$ (0.02)**	$ (0.03)
Weighted average number of common shares outstanding		
Basic and diluted	**141,414,325**	105,183,069

See accompanying notes

Star Navigation Systems Group Ltd. — Amended and Refiled

(A development stage company)
Consolidated Statements of Cash Flows
Years Ended June 30, 2010 and 2009

	2010	2009
Cash provided by (used in)		
Operations		
Net loss	**$ (3,363,082)**	$ (2,978,175)
Items not affecting cash		
Amortization	**37,097**	51,563
Write-down of inventory	**96,195**	161,094
Gain on settlement of debt	**(159,934)**	(346,511)
Stock based compensation	**1,127,650**	590,966
Expenses accrued as liabilities to related parties	**416,000**	463,400
Expenses paid by exercise of options	**-**	151,500
	(1,846,074)	(1,906,163)
Net changes in non-cash working capital		
Accounts receivable	**(108,500)**	29,953
Inventory	**-**	(5,616)
Prepaid expenses and sundry receivables	**2,097**	(3,627)
Accounts payable and accrued liabilities	**(207,313)**	331,181
Deferred revenue	**-**	(21,090)
Due to related parties	**(245,615)**	-
	(2,405,405)	(1,575,362)
Investing		
Equipment additions	**(218,317)**	(2,766)
License additions	**(9,210)**	-
	(227,527)	(2,766)
Financing		
Capital lease obligation	**(1,830)**	(1,746)
Deposit on share subscription	**(59,500)**	59,500
Issuance of capital stock	**4,739,331**	1,399,788
Other long term payables	**(29,375)**	-
	4,648,626	1,457,542
Net change in cash and cash equivalents	**2,015,694**	(120,586)
Cash and cash equivalents, beginning of year	**7,232**	127,818
Cash and cash equivalents, end of year	**$ 2,022,926**	$ 7,232

Supplemental Disclosure

Interest paid	**$ 8,740**	$ 1,050
Issuance of common shares for finders' fees and services (Note 9)	**$ 314,930**	$ 81,150
Issuance of common shares on settlement of debt (Note 9,11)	**$ 384,434**	$ 249,005

See accompanying notes

1. NATURE OF OPERATIONS AND GOING CONCERN

Star Navigation Systems Group Ltd. ("the Company") is in the development stage as defined by the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 11, devoting substantially all of its activity to the development, marketing and promotion of an In-flight Safety Monitoring System ("ISMS"), whereby data from an aircraft can be transmitted to ground stations for the duration of a flight. Certain technology used for this system as well as patents granted have been licensed to the Company by a director and a former director of the Company who undertook the initial research and development (Note 5). For the period from inception to June 30, 2010, the Company has incurred research and development expenses relating to the ISMS project of approximately $7,439,000 and earned revenues of approximately $813,000.

These consolidated financial statements have been prepared on a going concern basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company incurred a net loss of $3,363,082 for the year ended June 30, 2010, has an accumulated deficit of $27,064,143 and has a negative working capital of $12,241. The Company's ability to meet its obligations thereunder and realize its investment in development costs is dependent on raising additional capital to finance sales to customers, continue the project, obtaining the necessary certifications from regulatory agencies and successfully market the ISMS for gain.

These consolidated financial statements do not reflect any adjustments to the carrying values of assets and liabilities that might be necessary should the Company not be able to continue operations.

2. CHANGES IN ACCOUNTING POLICES

The Company has adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants:

(a) Effective July 1, 2009, the Company adopted recommendations of the CICA Handbook Section 3064, Goodwill and Intangible Assets, which establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The adoption of these amendments has had no impact on the financial statements of the Company for the year ended June 30, 2010.

(b) Effective July 1, 2009, the CICA issued an amendment to Handbook Section 3862 to provide improvements to fair value and liquidity risk disclosures. The amendment applies to the Company's fiscal year ending June 30, 2010. This adoption resulted in additional disclosure as provided below.

The following summarizes the methods and assumptions used in estimating the fair value of the Company's financial instruments where measurement is required. The fair value of financial instruments approximated their carrying amounts due to the relatively short period to maturity.Fair value amounts represent point-in-time estimates and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and are a matter of significant judgment. The methods and assumptions used to develop fair value measurements, for those financial instruments where fair value is recognized in the balance sheet, have been prioritized into three levels of the fair value hierarchy as follows:

2. CHANGE IN ACCOUNTING POLICIES (Cont'd)

Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly of indirectly for substantially the full term of the asset or liability.

Level 3: Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

The Company's financial instruments measured at fair value on the balance sheet consist of cash and cash equivalents. Cash and cash equivalents are measured at level 1 of the fair value hierarchy.

3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and their basis of application is consistent with that of the previous year except as disclosed in Note 2. Outlined below are those policies considered particularly significant.

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its operating subsidiary, Star Navigation Systems Inc. ("Star"). All significant inter-company transactions and balances have been eliminated on consolidation. All references to the Company should be treated as references to the Company and its subsidiary.

Cash and Cash Equivalents

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

Inventory

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Equipment and Amortization

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

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

Licenses

The Company owns the exclusive, worldwide license to the patented technology upon which its ISMS product is based. Payment in full in respect of the purchase of the License has been made. Ongoing costs represent out-of-pocket costs for various patent applications and processing. Costs directly attributable to the License are amortized on a straight-line basis over the estimated useful life of 5 years. Costs of renewals of licenses in foreign jurisdictions are amortized over the period of renewal. As the first country patent was granted in 2005, the Company commenced the amortization of these costs to operations from the time of acquisition (Note 5).

Impairment of Long-lived Assets

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

Leases

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

Revenue Recognition

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenues from airtime services are recognized as the services are performed, based on air time used by the customer. The customer is billed at the end of each month.

In the event that the Company's ISMS and airtime are sold as a bundled package, the Company allocates the total consideration to the various elements based on the residual method of allocation. Under the residual method, the amount of consideration allocated to the delivered item equals the total arrangement consideration less the fair value of the undelivered item.

Research and Development Expenses

Research and development expenses represent costs incurred for development and certification of the Company's ISMS and its peripherals. Research costs are expensed as incurred. Development costs are expensed as incurred except for those which meet the criteria for deferral, in which case, the costs are capitalized and amortized to operations over the estimated period of benefit. No costs have been deferred during any of the periods presented.

Foreign Exchange

Monetary assets and liabilities denominated in foreign currencies are translated at the period end exchange rate. Non-monetary assets and liabilities as well as revenue and expense transactions denominated in foreign currencies are translated at the rate prevailing at the time of the transaction. Translation gain or loss adjustments are recognized in the period in which they occur.

Loss Per Share

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

Stock-Based Compensation and Other Stock-Based Payments

The Company applies a fair value based method of accounting to all stock-based payments. Accordingly, stock-based payments are measured at the fair value of the consideration received or the fair value of the equity instruments issued or liabilities incurred, whichever is more reliably measurable. Stock-based compensation is charged to operations over the vesting period and the offset is credited to contributed surplus. Consideration received upon the exercise of stock options is credited to share capital and the related contributed surplus is transferred to share capital.

Share Issuance Costs

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income Taxes

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

Measurement Uncertainty

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

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

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

Financial Instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

The Company has classified its financial instruments as follows:

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

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

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

Recent Accounting Pronouncements Issued and Not Yet Applied

(a) The CICA recently introduced Handbook Section 1582 – Business Combinations to replace Handbook Section 1581 – Business Combinations. The new standard will become effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The Company is currently in the process of evaluating the potential impact of this standard on its financial statements.

(b) The CICA recently introduced Handbook Section 1601 – Consolidated Financial Statements and Section 1602 – Non-Controlling Interests, which will replace Handbook Section 1600 – Consolidated Financial Statements establishing a new section for accounting for a non-controlling interest in a subsidiary. These new sections apply to interim and annual consolidated statements for years beginning on or after January 1, 2011. The Company is currently in the process of evaluating the potential impact of these standards on its financial statements.

(c) In January 2006, the CICA Accounting Standards Board (“ASB”) adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards for public companies are required to converge with International Financial Reporting Standards (“IFRS”) for fiscal years beginning on or after January 1, 2011, with comparative figures presented on the same basis. The Company has commenced the process to determine the impact of the transition to IFRS on its reporting process. A preliminary impact assessment was performed, and some of the transitional matters related to the changeover to IFRS along with accounting policies that are anticipated to impact the Company include componentization of equipment and related amortization, deemed cost election of intangible assets, recognition of impairment of assets and stock-based compensation.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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

4. EQUIPMENT

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

2009	Cost	Accumulated Amortization	Net
Leasehold improvements	$ 10,052	$ 3,657	$ 6,395
Furniture and equipment	68,230	54,502	13,728
Computer equipment and software	107,225	83,972	23,253
Computer equipment under capital lease	8,262	3,090	5,172
Vehicles	6,690	2,321	4,369
	$ 200,459	$ 147,542	$ 52,917

(a) Production equipment was not ready for use at June 30, 2010 and accordingly, no amortization has been recorded.

5. LICENSES

	2010	2009
Cost	**$ 133,006**	$ 123,796
Less: Accumulated amortization	**(124,143)**	(111,187)
	$ 8,863	$ 12,609

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

The underlying patents are now owned by one director of the Company (see Note 11(c)). The Company owns the exclusive, worldwide license for the lifetime of the patents.

6. CAPITAL LEASE OBLIGATION

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

	2010	2009
2010	**$ -**	$ 2,809
2011	**2,809**	2,809
2012	**1,639**	1,639
Total minimum payments	**4,448**	7,257
Less: interest at the implicit rate of 15.9%	**(359)**	(1,338)
Balance of the obligation	**4,089**	5,919
Less: current portion	**(2,534)**	(2,010)
	$ 1,555	$ 3,909

7. DUE TO RELATED PARTIES

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

See notes 5, 9(d), 11 and 16.

8. OTHER PAYABLES

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

9. CAPITAL STOCK

Authorized

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

Issued

	Number of Shares		Value		
	Series I Preferred	Common	Series I Preferred	Common	Total
Balance at June 30, 2008	615,000	97,106,708	**$ 615,000**	**$ 15,597,529**	**$ 16,212,529**
Private placement of units	-	14,602,362	-	**1,337,301**	**1,337,301**
Shares issued as finders' fees related to private placements	-	811,500	-	**81,150**	**81,150**
Value allocated to warrants issued as part of unit financing	-	-	-	**(133,600)**	**(133,600)**
Cost of share issuance	-	-	-	**(123,663)**	**(123,663)**
Stock options exercised	-	1,820,986	-	**256,500**	**256,500**
Value of stock options exercised	-	-	-	**130,035**	**130,035**
Shares issued as settle debt	-	4,150,083	-	**249,005**	**249,005**
Balance at June 30, 2009	615,000	118,491,639	**$ 615,000**	**$ 17,394,257**	**$ 18,009,257**
Private placement of units [a,b,c]	-	34,153,665	-	**3,246,140**	**3,246,140**
Shares issued as finders' fees related to private placements[a,b,c]	-	3,318,832	-	**314,930**	**314,930**
Value allocated to warrants issued as part of private placements[a,b,c]	-	-	-	**(1,853,431)**	**(1,853,431)**
Stock options exercised	-	9,747,605	-	**1,144,991**	**1,144,991**
Value allocated to stock options exercised	-	-	-	**664,466**	**664,466**
Warrants exercised	-	1,887,000	-	**384,100**	**384,100**
Value allocated to warrants exercised	-	-	-	**52,668**	**52,668**
Shares issued as part of shares for debt conversion [d]	-	1,922,165	-	**384,434**	**384,434**
Share issue cost	-	-	-	**(340,830)**	**(340,830)**
Balance at June 30, 2010	615,000	169,520,906	**$ 615,000**	**$ 21,391,725**	**$ 22,006,725**

9. CAPITAL STOCK (Cont'd)

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

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

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

(d) Pursuant to the Debt Settlement agreed to on May 4, 2010, the Company issued from treasury 1,922,165 common shares of the Company at a price of $0.20 per share. The Debt Settlement resulted in reducing amounts due to related parties by $315,436 and other payables by $115,505, with a total debt reduction of $430,941. The shares issued to the creditors will be restricted from sale for a period of 180 days after the date of issue. The issuance of the Debt Settlement Shares will not result in a change of control, and the transaction is subject to TSX-Venture Exchange approval.

10. CONTRIBUTED SURPLUS, STOCK-BASED COMPENSATION AND WARRANTS

Contributed Surplus

Balance at June 30, 2008	$ 2,099,091
Fair value attributed to warrants issued under private placement	133,600
Fair value attributed to stock options	590,966
Fair value attributed to stock options exercised	(130,035)
Balance at June 30, 2009	$ 2,693,622
Fair value attributed to stock options	1,127,650
Fair value attributed to stock options exercised	(664,466)
Fair value attributed to warrants granted	1,853,431
Fair value attributed to warrants exercised	(52,668)
Warrant modification	328,586
Balance at June 30, 2010	**$ 5,286,155**

Stock-Based Compensation

The Company has a Stock Option Plan (the "Plan") for employees, officers, directors and consultants performing special technical or other services of the Company ("optionees"). During 2010, the Company amended the Plan whereby the number of common shares to be issued under the Plan is not to exceed 30,000,000 (2009 - 19,589,684) common shares. The designation of optionees, amount and vesting provisions of awards under the Plan are determined by the Board of Directors.

Stock Option Transactions	**Number**	**Exercise Price**	**Weighted-Average Exercise price**
Balance at June 30, 2008	8,792,500	-	$0.17
Issued	11,610,605	$0.10 to $0.20	$0.13
Exercised	(1,820,986)	$0.10 to $0.20	$0.14
Expired	(919,014)	$0.10-$0.45	$0.18
Balance at June 30, 2009	**17,663,105**		**$0.20**
Issued	10,200,000	$0.17-$0.32	$0.25
Exercised	(9,747,605)	$0.10-$0.20	$0.12
Expired	(1,617,500)	$0.10-$0.30	$0.17
Balance at June 30, 2010	16,498,000		$0.21

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

As at June 30, 2010 the Company had stock options, issued to directors, officers, employees and key consultants of the Company outstanding as follows:

Date of Grant	Options Granted	Options Exercisable	Exercise Price	Expiry Date
January 31, 2006	500,000	500,000	$0.30	January 30, 2011
December 15, 2006	200,000	200,000	$0.15	December 15, 20111
December 20, 2006	100,000	100,000	$0.15	December 20, 2011
October 30, 2007	400,000	400,000	$0.10 - $0.25	October 29, 2012
March 31, 2008	723,000	723,000	$0.15	March 30, 2010
August 21, 2008	430,000	430,000	$0.11	August 20, 2013
November 6, 2008	730,000	730,000	$0.15	November 5, 2013
November 6, 2008	1,100,000	1,100,000	$0.11	November 5, 2010
November 6, 2008	600,000	600,000	$0.20	December 15, 2012
December 23, 2008	640,000	640,000	$0.11	December 30, 2012
June 30, 2009	1,075,000	1,075,000	$0.10	June 14, 2014
January 1, 2010	600,000	300,000	$0.21	January 1, 2012
January 8, 2010	700,000	650,000	$0.21	January 1, 2015
March 30, 2012	2,025,000	506,250	$0.32	March 31, 2015
February 26, 2010	500,000	125,000	$0.26	January 1, 2015
February 8, 2010	5,575,000	2,660,833	$0.25	February 7, 2013
June 3, 2010	600,000	50,000	$0.22	March 31, 2015
	16,498,000	10,790,083		

At June 30, 2010, 10,790,083 (2009 - 11,427,500) stock options with a weighted average price of $0.18 (2009 - $0.20) were exercisable. The weighted average life of the options outstanding and exercisable is approximately 3.88 years (2009 - 2.99 years). The weighted average grant date fair value of options issued during the year ended June 30, 2010 is $0.28 per share(2009 - $0.06).

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

	2010	2009
Expected dividend yield	**Nil**	Nil
Risk free interest rate	**2%**	2%
Expected stock volatility	**107**	94
Expected Life	**3.63 years**	2.99 years

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

Warrants

	Number of Warrants		Weighted-average Exercise Price	Expiry Date
Balance at June 30, 2008	17,003,034		$0.34	
Issued	4,244,465		$0.30	Dec 1, 2011
Issued	3,052,550		$0.30	April 7, 2011
Expired	(3,820,268)		$(0.34)	
Balance at June 30, 2009	20,479,781		$0.30	
Issued	3,428,333	(i)	$0.06	Dec 7, 2011
Issued	10,776,666	(i)	$0.02	Nov 10, 2011
Issued	21,878,666	(i)	$0.18	Jan 14, 2012
Exercised	(1,887,000)	(i)	$(0.21)	
Balance at June 30, 2010	54,676,446		$0.35	

(i) These warrants were issued as part of unit financings in fiscal 2010 (Note 9).

Modification of warrants

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

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

The Black-Scholes value attributed to these modification was $328,586 and has been recorded in deficit.

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

	2010	2009
Expected dividend yield	**Nil**	Nil
Risk free interest rate	**1.33%**	0.80%
Expected stock volatility	**108%**	108%
Expected Life	**2 years**	1.75 year

11. GAIN ON SETTLEMENT OF DEBT

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

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

(c) In April 2009, the Company reached a settlement in the action commenced by its former President and Technical Director of the Company (the "claimant") and co-owner of the ISMS patents described in Note 5. As part of the settlement, the suit against the Company has been dismissed and the Company has in turn agreed to dismiss its counterclaim. The claimant has also agreed to fully and completely cooperate and provide full disclosure to the Company in any current or future litigation in relation to U.S. Patent No. 7113852 ("the ISMS Patent"), including the litigation currently outstanding with Aeromechanical Services Ltd. ("AMS") and others (see Note 15). Pursuant to this settlement, the Company has agreed to pay to the claimant $111,000 in cash and issued 1,000,000 common shares at a value of $0.06 per share, and the claimant dismissed the claim and forgave $503,320 of amounts owed to him. In a separate transaction, the claimant transferred his 50% interest in the ISMS patent to the co-patent holder, a Company's director who is now the sole owner of the patent. This resulted in a gain on settlement of debt of $346,511 in 2009.

Under the terms of the agreement the remainder will be repaid in thirty instalments of $3,000. Accordingly, the Company has reflected a long-term portion related to this liability and discounted the future payments at an implicit rate of 12% as described in the table below.

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

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

12. INCOME TAXES

(a) Income Tax Expense

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

	2010	2009
Loss before recovery of future income taxes	**$ (3,363,082)**	$ (2,978,175)
Statutory rate	**32.5 %**	33.3 %
Income tax provision at statutory rate	**$ (1,093,000)**	$ (992,000)
Effect of income tax of:		
Non-deductible expense	**367,000**	200,200
Share issuance costs	**(6,500)**	(36,000)
Expiry of non-capital losses and other	**635,100**	435,000
Change in tax rates and other	**746,900**	32,200
Change in valuation allowance	**(649,500)**	360,600
Provision for income taxes	**$ -**	$ -

(b) Future Income Taxes

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

	2010	2009
Non-capital losses carried forward	**$ 4,287,000**	$ 4,860,000
Equipment and license	**76,200**	130,100
Share issue costs	**32,900**	55,500
	4,396,100	5,045,600
Less: valuation allowance	**(4,396,100)**	(5,045,600)
	$ -	$ -

The Company estimates that it will have approximately $17,148,000 of non-capital losses carried forward which may be utilized to reduce Canadian taxable income in future years. To the extent they are not utilized, the non-capital losses carried forward expire as follows:

2014	$ 2,040,000
2015	1,700,000
2026	2,700,000
2027	2,600,000
2028	2,900,000
2029	2,766,000
2030	2,442,000
	$ 17,148,000

13. CAPITAL RISK MANAGEMENT

The Company includes equity, comprised of issued capital stock, contributed surplus and deficit, in the definition of capital.

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to develop, market and promote its ISMS technology and to maintain its ongoing operations. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity and warrants or by securing strategic partners.

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the twelve months ended June 30, 2010.

14. FINANCIAL RISK MANAGEMENT

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

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

(a) Market Risk

(i) Currency risk:

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

The Company's main objective in managing its foreign exchange is to maintain US cash on hand to support US forecasted cash flows over a 12 month horizon. To achieve this objective the Company monitors forecasted cash flows in foreign currencies and attempts to mitigate the risk by modifying the currency of cash held. A 1% change in the foreign exchange rate would have a $7,600 impact on foreign exchange gain.

As at June 30, 2010 the Company held $557,858 (2009 - $61,331) of cash and cash equivalents in US dollars.

(ii) Interest rate risk:

Interest rate risk is the risk that the future cash flows or the fair value of a financial instrument will fluctuate because of changes in market interest rates. The majority of the Company's debt is at fixed rates, and due in the short term. Accordingly, there is limited exposure to cash flow or price interest rate risk.

14. FINANCIAL RISK MANAGEMENT (Cont'd)

(b) Fair Value Risk

The carrying amount of cash and cash equivalents, accounts and sundry receivables, accounts payable and accrued liabilities approximate their fair values due to the short-term maturities of these instruments. The long-term portion of accounts payable and capital lease obligation has been discounted at a rate that approximates current market rates and therefore, approximates fair value. The fair values of amounts due to related parties and other payable (Note 7 and 8) cannot be reliably determined due to the uncertainty as to when these amounts will be paid.

(c) Credit Risk

The Company does not believe it is exposed to any significant concentration of credit risk. However, as disclosed in Note 17, the Company earns a significant amount of revenue from one customer. As at June 30, 2010, approximately $70,000 of the Company's receivables were past due the average credit period of 90 days.

(d) Liquidity Risk

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

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

As at June 30, 2010, the Company has current liabilities of $2,274,037 due within 12 months and has cash of $2,022,926 to meet its current obligations. As at June 30, 2010 the Company has a working capital deficit of $12,241 and accordingly, the Company is subject to liquidity risk. Management will continue to raise capital to develop, market and promote its ISMS technology and to maintain its ongoing operations.

15. COMMITMENTS AND CONTINGENCIES

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

Year	Premises	Equipment		Total
2011	123,827	11,077	$	134,904
2012	40,000	7,857	$	47,857
2013	-	6,143	$	6,143
2014	-	6,143	$	6,143
2015	-	6,143	$	6,143
	163,827	37,363	$	201,190

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

(c) In 2007, a complaint was received by the Company alleging trademark infringement and unfair competition asserted by a competitor. The Company ceased infringing on the trademark and applied for its own Star/ISMS trademark. No further action has been taken by the claimant. Management believes that the matter is closed and hence no amount has been accrued in the financial statements.

(d) In 2008, a former employee has commenced an action against the Company for wrongful dismissal in the amounts of $60,000. The Company's legal counsel estimates that the lawsuit will be settled for $35,000. Management has accrued $35,000 with respect to this matter.

(e) A former employee has commenced an action against the Company for wrongful dismissal in the amount of $85,000. The Company's legal counsel believes that the damages requested is grossly inflated. However, if the court rules against the Company, the damages would likely be no greater than $26,000. Management has accrued $26,000 with respect to this matter.

16. RELATED PARTY TRANSACTIONS

The Company has accrued and carries 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 issue that management deems necessary. Advisory Board members are business people with expertise in the Aviation industry who help the Company attain access to the decision makers of major airlines to help promote Star's STAR-ISMS™. They are remunerated at the rate of $15,000 per year. Committee Chairpersons are selected from amongst the Directors of the Company to lead the Audit, Compensation and Corporate Governance committees. Committee Chairpersons are remunerated at the rate of $2,000 per month. All of the above amounts are accrued in the financial statements of the Company. The terms for repayment of the amounts owing to the various Board, Advisory and Committee members are restricted. These amounts can only be settled when individuals wish to exercise options that have been granted to them by the Company or to participate in a private placement being done by the Company.

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

At June 30, 2010, management estimates that there is the potential for the amounts due to be settled in the next 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, CTO and CFO.

The following balances are due as of June 30, 2010:

Due to Directors - $152,250 (2009 - $184,000), Due to Advisory Board - $100,000 (2009 - $38,000) and Due to Committee Chairpersons - $72,000 (2009 - $48,000).

The following amounts are due to Related Parties:

Due to Chief Technical Officer and member of the Board of Directors - $92,576 (2009 - $108,148). The above amount resulted from the accrual of salary. Due to the Chief Executive Officer and Chairman of the Board of Directors - $1,264,866 (2009 - $1,144,858). This amount resulted from salary accrual for the CEO in prior years including certain years salary was not funded due to the economic limitations the Company was experiencing at that time. He also financed the Company at various times when the Company was experiencing funding shortfalls and he deferred repayment until the Company attained stability. Due to a corporation formally controlled by an officer who is also a director of the Company - $28,090 (2009 - $160,590). Additionally, certain loans amounting to $171,234, were advanced by a former director and an individual related to the CEO to the Company during prior years. These balances amounted to $171,234 as at June 30, 2009, and were settled during 2010.

Included on the statement of profit and loss for the year ended June 30, 2010 in general and administrative expenses is $575,108 (2009 $594,800) in fees paid and accrued to directors and officers of the Company. Rent expense of $133,300 (2009 - $120,000) was paid to a corporation formerly controlled by an officer who is also a director of the Company. An amount of $269,808 (2009 - $210,800) was paid to the Company CEO. Board of Directors fees of $86,000 (2009 - $124,000), Advisory Board fees of $62,000 (2009 - $92,000) and Committee Chairperson fees of $24,000 (2009 – $48,000) were accrued during the year.

16. RELATED PARTY TRANSACTIONS (Cont'd)

Included in research and development is $138,525 (2009 - $122,966) in fees paid and accrued to the Chief Technical Officer and a director of the Company. Professional fees of $54,857 (2009 – $10,500) were paid to Chief Financial Officer of the Company. Also included in accounts payable of the Company is approximately $5,400 (2009 $32,449) owing to a director and officer of the Company.

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

See also Notes 5, 7, 9 (d) and 11.

17. SIGNIFICANT CUSTOMER

During the year ended June 30, 2010, 74% (2009 - 54%) of the revenue was generated from one customer.

18. SUBSEQUENT EVENT

Star Navigation Systems Group Ltd. announced that on September 14, 2010, it had completed a non-brokered private placement of 10,875,000 units (the “Units”) of the Company at an issue price of $0.12 per Unit for gross proceeds totaling $1,305,000. Each Unit consists of one common share and one common share purchase warrant (a “Warrant”). Each Warrant entitles the holder to purchase one common share of the Company (a “Warrant Share”) at a price of $0.20 per Warrant Share for a term of 24 months from the closing date. Finder's fees in the amount of $115,400 in cash will be paid in connection with this private placement.

All securities issued in the Offering and any Shares issued upon exercise of Warrants are subject to a four month statutory hold period from the date of issuance. The net proceeds of the placement will be used for marketing and general working capital purposes.

19. REVISION TO FINANCIAL STATEMENTS

The financial statements have been revised to add increased disclosures regarding the Company’s Revenue Recognition policy (Note 3) concerning how and when the Company recognizes income from the various products and services it sells. Also Note 16, Related Party transactions has been expanded to provide additional details regarding amounts owing to related parties at the balance sheet date.