Star Navigation Systems Group Ltd.

(A development stage company)

Interim Consolidated Financial Statements

For the three and six month periods ended
December 31, 2010 and 2009

NOTICE TO READER

The accompanying unaudited interim consolidated financial statements have been prepared by the Company's management and the Company's independent auditors have not performed a review of these financial statements.

Toronto, Ontario
March 1, 2011

Star Navigation Systems Group Ltd.
(A development stage company)
Interim Consolidated Balance Sheets
As at December 31, 2010
(unaudited)

	Dec 31, 2010	June 30, 2010 (audited)
Assets		
Current		
Cash and cash equivalents	$ 1,948,845	$ 2,022,926
Accounts receivable	41,358	150,189
Prepaid expenses and sundry receivables	169,687	88,681
	2,159,890	2,261,796
Equipment (Note 4)	315,260	247,093
Licenses (Note 5)	8,363	8,863
	$ 2,483,513	$ 2,517,752
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 11)	$ 305,951	$ 365,721
Current portion of capital lease obligation (Note 6)	2,534	2,534
Due to related parties (Note 7)	1,590,782	1,709,782
Other payables (Note 8)	196,000	196,000
	2,095,267	2,274,037
Long term portion of accounts payable and accrued liabilities (Note 11)	13,423	13,423
Capital lease obligation (Note 6)	150	1,555
	2,108,840	2,289,015
Shareholders' Equity		
Capital stock (Note 9)	23,418,100	22,006,725
Contributed surplus (Note 10)	6,554,991	5,286,155
Deficit	(29,598,418)	(27,064,143)
	374,673	228,737
	$ 2,483,513	$ 2,517,752

Going Concern (Note 1)

Commitments and Contingencies (Note 14)

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

See accompanying notes

Star Navigation Systems Group Ltd.
(A development stage company)
Interim Consolidated Statements of Operations and Deficit
For the three and six-month periods ended December 31, 2010 and 2009
(unaudited)

	Three months ended December 31,		Six months ended December 31,	
	2010 **$**	2009 $	**2010** **$**	2009 $
Revenue (Note 16)	**21,019**	22,377	**52,823**	45,529
Cost of goods sold	**14,787**	18,209	**44,278**	33,165
Gross Profit	**6,232**	4,168	**8,545**	12,364
Expenses				
Research and development	**173,755**	90,021	**309,299**	168,324
General and administrative	**215,480**	296,993	**421,339**	458,583
Marketing and promotion	**113,639**	94,862	**234,289**	140,519
Professional fees	**51,458**	39,950	**154,421**	101,129
Stock based compensation	**1,096,114**	51,663	**1,342,236**	103,325
Foreign exchange	**7,638**	1,108	**42,774**	5,281
Amortization	**23,451**	11,192	**46,403**	22,383
	1,681,535	585,789	**2,550,761**	999,544
Loss before the undernoted items and income taxes	**(1,675,303)**	(581,621)	**(2,542,216)**	(987,180)
Other Income (expenses)				
Interest income	**5,385**	-	**7,429**	-
Income taxes	**-**	-	**7,762**	-
Lawsuit settlement	**(7,250)**	-	**(7,250)**	-
	(1,865)	-	**7,941**	-
Net Loss	**(1,677,168)**	(581,621)	**(2,534,275)**	(987,180)
Deficit, beginning of period	**(27,921,250)**	(23,778,034)	**(27,064,143)**	(23,372,475)
Deficit, end of period	**(29,598,418)**	(24,359,655)	**(29,598,418)**	(24,359,655)
Basic and diluted loss per common share	**(0.001)**	(0.01)	**(0.01)**	(0.02)
Weighted average number of common shares outstanding	**169,750,553**	126,472,744	**176,501,096**	122,482,191

Star Navigation Systems Group Ltd.
(A development stage company)
Interim Consolidated Statements of Cash Flows
For the three and six-month periods ended December 31, 2010 and 2009
(unaudited)

	Three months ended December 31,		Six months ended December 31,	
	2010 **$**	2009 $	**2010** **$**	2009 $
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Loss for period	**(1,677,168)**	(581,621)	**(2,534,275)**	(987,180)
Adjustments for items not affecting cash				
Amortization	**23,451**	11,192	**46,403**	22,383
Stock based compensation	**1,096,114**	51,663	**1,342,236**	103,325
	(557,603)	(518,766)	**(1,145,636)**	(861,472)
Changes in non-cash working capital balances:				
Accounts receivable	**109,218**	5,877	**108,831**	(6,183)
Prepaid and other assets	**(55,247)**	(50,888)	**(81,006)**	(26,510)
Accounts payable and accrued liabilities	**(192,451)**	(172,083)	**(59,770)**	(220,995)
	(696,083)	(735,860)	**(1,177,581)**	(1,115,160)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of equipment	**(11,570)**	-	**(114,070)**	-
CASH FLOWS FROM FINANCING ACTIVITIES				
Capital lease payments	**(702)**	(426)	**(1,405)**	(426)
Directors' and officers' advances	**183,497**	-	**(119,000)**	-
Due to related parties	**-**	(6,432)	**-**	83,568
Share subscription deposits	**-**	825,580	**-**	1,102,080
Proceeds from issuance of shares	**100,650**	935,630	**1,337,975**	954,330
Other payables	**-**	135,434	**-**	135,434
	283,445	1,889,786	**1,217,570**	2,274,986
NET INCREASE (DECREASE) IN CASH	**(424,208)**	1,153,926	**(74,081)**	1,159,826
Cash, beginning of period	**2,373,053**	13,132	**2,022,926**	7,232
Cash, end of period	**1,948,845**	1,167,058	**1,948,845**	1,167,058

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 December 31, 2010, the Company has incurred research and development expenses relating to the ISMS project of approximately $7,748,299 and earned revenues of approximately $865,823.

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 $2,534,275 for the six-month period ended December 31, 2010, has an accumulated deficit of $29,598,418 and has working capital of $64,623. 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 CICA:

(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 ended 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:

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

2. CHANGE IN ACCOUNTING POLICIES (Cont'd)

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 Star.

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. At December 31, 2010 the Company did not have any income subject to undelivered items.

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 six-month period ended December 31, 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

December 31, 2010		**Cost**	**Accumulated Amortization**	**Net**
Leasehold improvements	$	**84,663 $**	**40,612 $**	**40,051**
Furniture and equipment		**69,180**	**60,721**	**8,459**
Computer equipment and software		**112,746**	**103,592**	**9,154**
Computer equipment under capital lease		**8,262**	**7,730**	**532**
Vehicles		**6,690**	**4,931**	**1,759**
Production equipment(a)		**251,305**	**-**	**251,305**
	$	**532,846 $**	**217,586 $**	**315,260**

June 30, 2010 (audited)		Cost	Accumulated Amortization	Net
Leasehold improvements	$	81,114 $	12,270 $	68,844
Furniture and equipment		69,180	57,096	12,084
Computer equipment and software		107,225	92,692	14,533
Computer equipment under capital lease		8,262	6,133	2,129
Vehicles		6,690	3,492	3,198
Production equipment(a)		146,305	-	146,305
	$	418,776 $	171,683 $	247,093

(a) Production equipment was not ready for use at December 31, 2010 and accordingly, no amortization has been recorded.

5. LICENSES

	Dec 31, 2010	June 30, 2010 (audited)
Cost	**$ 133,006**	$ 133,006
Less: Accumulated amortization	**(124,643)**	(124,143)
	$ 8,363	$ 8,863

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.

	Dec 31, 2010	June 30, 2010 (audited)
2011	**$ 1,404**	$ 2,809
2012	**1,639**	1,639
Total minimum payments	**3,043**	4,448
Less: interest at the implicit rate of 15.9%	**(359)**	(359)
Balance of the obligation	**2,684**	4,089
Less: current portion	**(2,534)**	(2,534)
	$ 150	$ 1,555

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 15.

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, 2009	615,000	118,491,639	**$ 615,000**	**$ 17,394,257**	**$ 18,009,257**
Private placement of units [a,b,c]	-	34,153,665	-	**3,246,140**	**3,246,140**
Shares issued as finders' fees related to private placements[a,b,c]	-	3,318,832	-	**314,930**	**314,930**
Value allocated to warrants issued as part of private placements[a,b,c]	-	-	-	**(1,853,431)**	**(1,853,431)**
Stock options exercised	-	9,747,605	-	**1,144,991**	**1,144,991**
Value allocated to stock options exercised	-	-	-	**664,466**	**664,466**
Warrants exercised	-	1,887,000	-	**384,100**	**384,100**
Value allocated to warrants exercised	-	-	-	**52,668**	**52,668**
Shares issued as part of shares for debt conversion [d]	-	1,922,165	-	**384,434**	**384,434**
Share issue cost	-	-	-	**(340,830)**	**(340,830)**
Balance at June 30, 2010	615,000	169,520,906	**$ 615,000**	**$ 21,391,725**	**$ 22,006,725**
Private placement of units [e]	-	10,875,000	-	**1,305,000**	**1,305,000**
Stock options exercised	-	1,315,000	-	**155,650**	**155,650**
Value allocated to stock options exercised	-	-	-	**73,400**	**73,400**
Share issue cost	-	-	-	**(122,675)**	**(122,675)**
Balance at December 31, 2010	615,000	181,710,906	**$ 615,000**	**$ 22,803,100**	**$ 23,418,100**

Note: At December 31, 2010 the Company does not have any Series II Preferred Shares issued or outstanding.

9. CAPITAL STOCK (Cont'd)

(a) On November 10, 2009, the Company completed a non-brokered private placement of 10,776,666 units of the Company at an issue price of $0.06 per unit for gross proceeds totaling $646,600. Each unit consists of one common share and one Warrant. Each Warrant entitles the holder to purchase one Warrant 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 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 Warrant Shares issuable upon exercise of Warrants are subject to a four month statutory hold period from the date of issuance.

(b) On December 4, 2009, the Company completed a non-brokered private placement of 3,428,333 units of the Company at an issue price of $0.06 per unit for gross proceeds totaling $205,700. Each unit consists of one common share and one common share purchase warrant (a "Warrant"). Each Warrant entitles the holder to purchase one common share of the Company (a "Warrant Share") at a price of $0.20 per Warrant Share for a term of 24 months from the closing date. Finder's fees in the amount of $20,570 consisting of 342,833 shares were paid in connection with this private placement. All securities issued in the offering and the Warrant Shares issuable upon exercise of Warrants are subject to a four month 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 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 Warrant. Each Warrant entitles the holder to purchase one Warrant Share of the Company 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. All securities issued in the offering and Warrant Shares issuable 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 "Debt Settlement"), 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 are restricted from sale for a period of 180 days from the date of issue.

(e) On September 14, 2010, the Company completed a non-brokered private placement of 10,875,000 units of the Company at an issue price of $0.12 per unit for gross proceeds totaling $1,305,000. Each unit consists of one common share and one Warrant. Each Warrant entitles the holder to purchase one Warrant Share at a price of $0.20 per Warrant Share for a term of 24 months from the closing date. Finder's fees and regulatory fees in the amount of $122,675 in cash were paid in connection with this private placement. All securities issued in the offering and Warrant Shares issuable upon exercise of Warrants are subject to a four month statutory hold period from the date of issuance.

10. CONTRIBUTED SURPLUS, STOCK-BASED COMPENSATION AND WARRANTS

Contributed Surplus

Balance at June 30, 2009	$ 2,693,622
Fair value attributed to stock options	1,127,650
Fair value attributed to stock options exercised	(664,466)
Fair value attributed to warrants granted	1,853,431
Fair value attributed to warrants exercised	(52,668)
Warrant modification	328,586
Balance at June 30, 2010	$ 5,286,155
Fair value attributed to stock options	1,342,236
Fair value attributed to stock options exercised	(73,400)
Balance at December 31, 2010	**$ 6,554,991**

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 the stock options under the Plan are determined by the Board of Directors.

Stock Option Transactions	**Number**	**Exercise Price**	**Weighted-Average Exercise price**
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
Exercised	(1,315,000)	$0.10-$0.20	$ 0.12
Expired	(415,000)	$0.10-$0.30	$ 0.17
Balance at December 31, 2010	**14,768,000**		**$ 0.21**

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

As at December 31, 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, 2011
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, 2012
August 21, 2008	130,000	130,000	$0.11	August 20, 2013
November 6, 2008	730,000	730,000	$0.15	November 5, 2013
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	975,000	975,000	$0.10	June 14, 2014
January 1, 2010	600,000	450,000	$0.21	January 1, 2012
January 8, 2010	700,000	700,000	$0.21	January 1, 2015
March 30, 2012	2,025,000	1,518,750	$0.32	March 31, 2015
February 26, 2010	500,000	250,000	$0.26	January 1, 2015
February 8, 2010	5,345,000	5,125,000	$0.25	February 7, 2013
June 3, 2010	600,000	350,000	$0.22	March 31, 2015
	14,768,000	13,766,750		

At December 31, 2010, 13,766,750 (June 30, 2010 – 10,790,083) stock options with a weighted average price of $0.18 (2010 - $0.18) 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).

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

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:

	Dec 31, 2010	June 30, 2010 (audited)
Expected dividend yield	**Nil**	Nil
Risk free interest rate	**2%**	2%
Expected stock volatility	**107**	107
Expected Life	**3.63 years**	3.63 years

Warrants

	Number of Warrants		**Weighted-average Exercise Price**	**Expiry Date**
Balance at June 30, 2009	20,479,781		$0.30	
Issued	3,428,333	(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	
Issued	1,305,000	(ii)	$0.18	Sept 14, 2012
Balance at December 31, 2010	55,981,446		$0.33	

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

(ii) These warrants were issued as part of a unit financing in September 2010 (Note 9 (e)).

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

	Dec 31, 2010	June 30, 2010 (audited)
Expected dividend yield	**Nil**	Nil
Risk free interest rate	**1.33%**	1.33%
Expected stock volatility	**108%**	108%
Expected Life	**2 years**	2 years

11. GAIN ON SETTLEMENT OF DEBT

(a) On May 4, 2010, the Company approved the Debt Settlement pursuant to which the Company issued 1,922,165 common shares at a price of $0.20 per share. The Debt Settlement resulted in reducing the Company'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 (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 settlement agreement with the claimant, 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 the fiscal year ended June 30, 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. 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 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 six-months ended December 31, 2010.

13. FINANCIAL RISK MANAGEMENT

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

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

(a) Market Risk

(i) Currency risk:

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

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

As at December 31, 2010, the Company held $508,007 (2009 - $25,511) of cash and cash equivalents in US dollars.

(ii) Interest rate risk:

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

13. FINANCIAL RISK MANAGEMENT (Cont'd)

(b) Fair Value Risk

The carrying amount of cash and cash equivalents, accounts 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 16, the Company earns a significant amount of revenue from one customer. As at December 31, 2010, approximately $17,000 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 December 31, 2010, the Company has current liabilities of $2,053,283 due within 12 months and has cash of $1,948,845 to meet its current obligations. As at December 31, 2010, the Company has working capital of $64,623 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.

14. COMMITMENTS AND CONTINGENCIES

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

Year	Premises	Equipment		Total
2011	61,914	11,077	$	72,991
2012	40,000	7,857	$	47,857
2013	-	6,143	$	6,143
2014	-	6,143	$	6,143
2015	-	6,143	$	6,143
	101,914	37,363	$	139,277

(b) The Company has filed a notice of dismissal of its patent infringement lawsuit against 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 the Company claiming, among other things, $5,000,000 for lost revenue and investment capital, $10,000,000 for loss of reputation and $5,000,000 for loss of goodwill. The matter is at the discovery stage. Management believes that the Company will be successful defending this counterclaim and that the counterclaim 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 amount 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 at June 30, 2010. Prior to December 31, 2010, this matter was settled for $31,500.

(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 are grossly inflated. However, if the court rules against the Company, the damages will likely be no greater than $26,000. Management has accrued $26,000 with respect to this matter at June 30, 2010. Prior to December 31, 2010, this matter was settled for $34,250.

15. 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 the Company's STAR-ISMS™. They are remunerated at the rate of $15,000 per year. Committee Chairperson's are selected from amongst the Directors of the Company to lead the Audit, Compensation and Corporate Governance committee's. 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 above, are non-interest bearing and unsecured, in the normal course of business and are recorded at the exchange amount, which is the amount agreed to between the related parties.

At December 31, 2010, 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, CTO and CFO.

The following balances are to due to related parties as of December 31, 2010;

Due to Directors - $176,250 (2009 - $232,000), Due to Advisory Board - $100,000 (2009 - $68,000) and Due to Committee Chairpersons - $84,000 (2009 - $60,000). Due to Chief Technical Officer and member of the Board of Directors - $2,576 (2009 - $138,148), which amount resulted from the accrual of salary. Due to Chief Executive Officer and Chairman of the Board of Directors - $1,199,866 (2009 – $1,242,751). This amount resulted from salary accrual in prior years including certain years where as CEO he took no salary due to the economic limitations the Company was experiencing at the 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).

15. RELATED PARTY TRANSACTIONS (Cont'd)

Included on the statement of profit and loss for the six-month period ended December 31, 2010 in general and administrative expenses is $290,000 (2009 - $267,402) in fees paid and accrued to directors and officers of the Company. Rent expense of $70,000 (2009 - $48,000) was paid to a corporation formerly controlled by an officer who is also a director of the Company. $141,000 (2009 - $129,402) was paid to the Company CEO. Board of Directors fees of $36,000 (2009 - $48,000) were accrued. Advisory Board fees of $31,000 (2009 - $30,000) were accrued. Chairperson fees of $12,000 (2009 - $12,000) were accrued. Included in research and development is $90,000 (2009 - $55,398) in fees paid and accrued to the Chief Technical Officer and a director of the Company. Professional fees of $24,000 (2009 – $31,000) were paid to the Chief Financial Officer of the Company. Also included in accounts payable of the Company is approximately $Nil (2009 - $8,854) 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.

16. SIGNIFICANT CUSTOMER

During the six-month period ended December 31, 2010, 68% (June 30, 2010 - 74%) of the revenue was generated from one customer.