

Recommendation

Speculative Buy

Target Price

\$0.47

Risk

High

Average Trading Volume

70,500

Quick Facts

Recent Price C\$0.305
 Symbol SNA:TSX-V
 Shares O/S 40.2 million
 52 Wk. Range \$0.35 - \$0.07
 Year End June 30

	<u>BVPS</u>	<u>EPS</u>
2002	\$(0.01)	\$(0.08)
2003	\$(0.05)	\$(0.10)
2004	\$(0.04)	\$(0.08)

STRENGTHS

- System and method for air transportation vehicle monitoring
- Certification by Transport Canada and U.S. Federal Flight Authority
- Patent approval in UK; pending in other countries including the U.S.A. and Canada
- Secondary medical and environmental applications

RISKS

- Need for additional financing
- Larger competitors with superior technology

CONCLUSION

- Company with vast international network of contacts and technical innovativeness which will enable it to market its in-flight monitoring system throughout the world

Star Navigation Systems



Data Source: www.BigCharts.com

Star Navigation Systems is the developer of the In-Flight Safety Monitoring System, which offers a direct connection between the ground and the aircraft for real time monitoring of on-board airplane systems for the duration of the flight.

SUMMARY AND RECOMMENDATION

We recommend Star Navigation Systems Group Ltd. ("Star Navigation Systems", or the "Company"), as a Speculative Buy. We are intrigued by the growing interest in its in-flight monitoring system (ISMS), one of the first in the world to transmit data from an aircraft to ground-based data centres via satellites and the Internet during flight. The ISMS could potentially replace the aviation industry's Digital Flight Data Recorder (DFDR), or "black box", with safer, less costly technology that operates in real time, i.e., reporting issues as they occur instead of recording data that is reviewed after the flight. More importantly, the ISMS unit improves airline profitability and fleet management by reducing flight operating and maintenance costs.

The Company is on the verge of generating significant revenue from contracts that are being negotiated in the Middle East and Asia, where air travel is growing at one of the fastest rates in the world. It is also engaged in discussions to sell its ISMS units to major North American, European, and

African airline companies, and formal contracts could be signed in the latter part of 2005/2006. Contracts negotiated to date (see Airline Contracts, page 12) have been with smaller airlines. The major airline manufacturers, like Boeing and Airbus, are also developing and installing their own systems, and this could limit revenue growth and pose stiff competition for the Company.

With further market expansion for its ISMS unit, we estimate blended 2006/2007 earnings per share of \$0.07. A P/E multiple ranging from 10x-14x translates into a price range from \$0.70 to \$0.98, or \$0.79 per share at the mid-point. Our forecast is based on 80 ISMS units sold in 2006, 171 units sold in 2007, and other services such as monitoring and reporting; however, other services, such as WiFi, software, medical monitoring, environmental monitoring, and audio visual services are not included.

Using the \$0.79 mid-point price and discounting at 40% (which reflects the many larger competitors on the market), we derive a 12-month Target Price of \$0.47 per share.

THE COMPANY

Headquartered in Toronto, Star Navigation Systems has marketing, sales and service facilities located in Toronto. The Company has nineteen employees, of which seven are engineers. At the present time, Star contracts out the building of its ISMS units to companies in the United States, with parts that can be brought "off the shelf". The hardware components are then shipped back to Star, where full time employees assemble the hardware components into the required configuration and add software. Three salespersons work at Star's Toronto office to sell the "Star box" (ISMS unit) to North American airlines. These salespersons are paid on the basis of salary and commission. Star also has five outside sales agents worldwide who operate strictly on commission.

Founded in 2000, the Company went public in 2002 on the TSX Venture Exchange and trades under the stock symbol "SNA". In 2004, Star obtained an over-the-counter listing in the United States with the symbol OTC:BB.

Star Navigation Systems is in the process of building a sales force of international agents around the globe to market its ISMS units. In 2005 Star signed a contract with Kazakhstan-based Aviation Technical Centres ("ATC") making ATC the Company's exclusive sales agent in the Commonwealth of Independent States (Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Republic of Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine and Uzbekistan). ATC is the only technical aviation center in Kazakhstan and the Middle Asian Republics certified to carry out technical support on Russian planes. CIS countries are in the process of increasing their transportation infrastructure, especially aircraft

Recently, Star Navigation Systems entered into a joint marketing agreement with Russell Adams Ltd., based in the United Kingdom. Russell Adams is a system integrator dealing with technology and I.T. solutions for the aviation and defence industries, with offices in Europe, the Middle East, and Australia, with over 70 customers around the world.

PRODUCTS

1. In-flight Safety Monitoring System: Technical Aspects

Star Navigation Systems is the developer of the In-Flight Safety Monitoring System (ISMS) that monitors a flight from beginning to end to enhance safety and improve fleet operations.

COMMENT: *The Star Navigation System is one of the first in the world to offer a direct connection between the air and the ground for real-time monitoring of on-board airplane systems. The ISMS unit can be installed on new planes or can be retrofitted on existing aircraft.*

The ISMS product features an in-flight data analysis and monitoring system with a real time connection between the aircraft and the ground. Unlike a black box, the technology is proactive and monitors the aircraft's system as the aircraft flies. The Company installs a Windows-based Ethernet Network Server onboard the aircraft. Each aircraft has its own IP address and with the enhanced IP, each seat, location, instrument etc. can have its own IP address. The ISMS system picks up data from various data buses (data points within the aircraft), analyzes the data, checks for deviations from the manufacturers pre-set norms, and constantly trend monitors the information comparing the norm or pre-set levels against the actual measurements.

The ISMS unit can transmit data at up to 3,000 transactions per second. All the data is processed into English readable information and transmitted via satellite to Star Navigation System's ground station. An alert is sent if an incident has occurred or a problem is anticipated. This enables the airline personnel to monitor the aircraft and take action if necessary. At the end of the flight, a report is generated and sent to predetermined departments and

individuals. In the case of an emergency, the ground station will notify the pre-designated individuals or departments via a pager, SMS-text messaging, e-mail, or by telephone. The appropriate airline personnel's suggestions as to how to rectify the situation can be implemented from anywhere in the world in order to avoid a crisis situation.

COMMENT: *The difference between the current legacy systems and the ISMS is that the Star system is constantly hunting for differences from those considered normal or acceptable, whereas the legacy systems inform the pilots after an incident has taken place.*

2. Marketing

The ISMS unit technology that enhances passenger safety by enabling real time monitoring of flights from the ground is coming to market four years after the 9/11 disaster. If ISMS technology had been available at the time of the 9/11 incident, the United States Federal Aviation Administration ("FAA") would have been aware that the hijackings were not isolated incidents and would have been better able to co-ordinate their responses. One factor that is creating lucrative markets for this product is the phenomenal growth in demand for airline passenger service in Asia and the Middle East as both regions experience a substantial rise in economic growth, rising per capita incomes, and rising airline passenger traffic.

Each ISMS unit sells for US\$240,000, with on-going annual monitoring and reporting fees of \$1000 monthly. Airlines can perform the monitoring activity themselves but this would mean hiring additional staff to perform the monitoring, whereas Star Navigation Systems already has the infrastructure and trained staff.

Revenue will be also generated for WiFi services, whereby companies can communicate with their local application networks (LANs). In addition, secondary applications of the technology, such as medical, environmental, and audio visual monitoring offer opportunities to increase revenues.

In April 2004, Star Navigation Systems entered into a ten-year, sales-commission based contract with the Gulf Aircraft Maintenance Company ("GAMCO"), under which GAMCO will become the sole entity authorized to represent, install, and monitor the ISMS in the United Arab Emirates (see Airline Contracts, page 13).

In March 2005, Star signed a \$9 million contract with Royal Airways of India to install ISMS units in all their new SpiceJet Airlines aircraft. SpiceJet, a low cost carrier in a fast growing economy, has placed orders for 20 Boeing 737-800 airplanes worth over \$1.26 billion. SpiceJet intends to double the size of their fleet over the next four years. SpiceJet has also chosen Star to manage all real time monitoring for the Company's Toronto operations centre. In July 2005, SpiceJet asked Star Navigation to accelerate the installation of the ISMS units from a period of 36 to 42 months to 18 to 24 months. During the same month, Star Navigation signed a letter of intent for the installation of ISMS units with A.R. Airways of New Delhi, India. The contract is worth \$2.5 million and marks the foray of the Company into the VIP jet service market.

On August 22, 2005, the Company signed a joint marketing agreement with Russell Adams Ltd. based in the United Kingdom.

3. Certification

The ISMS has been successfully tested and certified by both Transport Canada and the United States FAA. Star Navigation Systems has received certificates for the installation of ISMS on certain types of aircraft and in general pursuant to regulations detailed in Airworthiness Manual Chapter 561. The AWM 561 certification indicates that Star Navigation Systems complies with the mandatory quality control and manufacturing requirements for the production and installation of the ISMS on board commercial aircraft.

4. Patent Approval

Star Navigation Systems recently received patent approval in the U.K. for the ISMS unit, while its patent approvals in the U.S.A., Canada, Germany, Japan, Hong Kong, Australia, and India are pending. The Company is also in the process of licensing and trade marking its ISMS unit.

5. Product Testing

In June 2004, Star Navigation Systems successfully installed and tested the ISMS on an Air Sahara 737-700 aircraft in India. This installation and subsequent operation of the ISMS system on a June 7, 2004 flight marked the first time in history that flight data of a commercial aircraft has been monitored in real time while in flight. The flight was monitored by the Star Navigation Ground Control Center located in Toronto as well as by civil aviation officials in India. This installation is the first phase in an agreement signed in January 2004, whereby the successful implementation of the system is expected to pave the way for installation of the ISMS system on 15 aircraft of the Air Sahara fleet.

FINANCIAL REVIEW AND OUTLOOK

Revenue/Income: Star Navigation Systems has not yet begun to produce revenue but the Company is nearing the end of the development and testing stage and expects to begin to produce revenue in fiscal 2006 (ending June 30). Based on the contracts signed to date, the Company has an order backlog of approximately \$11.5 million, of which we estimate that about \$10 million will be recognized in fiscal 2006.

Net Loss: The Company's reported loss for the year ended June 30, 2004 of \$2,312,874 (loss of \$0.08 per share), compared to a net loss in fiscal 2003 of \$2,201,809 (a loss of \$0.10 per share). The higher net loss in 2004 reflects higher marketing and promotion expenses. For the nine month period ending March 31, 2005, the net loss was \$1,467,914 compared to a net loss of \$1,816,162 for same period in the previous year. We estimate the Company will report a net loss for fiscal year 2005 of \$0.04 per share. The lower net loss in fiscal 2005 reflects lower research & development and marketing & promotion costs, partially offset by a new expense - stock based compensation. Based on our forecast, we expect the Company to generate its first profit in fiscal 2006 as it has embarked on an aggressive international marketing strategy.

Burn Rate: The Company's monthly "burn rate" averaged \$82,000 in fiscal 2004 (equivalent to \$1 million on annual basis). In fiscal 2005, the Company is expected to have an even higher monthly burn rate. For the 9 months ending March 31, 2005, the average monthly burn rate was \$107,000.

Financing: In January 2004, the Company completed a private placement of \$1,019,000 through the issuance of 8.49 million shares at \$0.12 per share. Each share carries half a warrant, which allows the purchase of one common share at \$0.45 and must be exercised before December 1, 2005.

COMMENT: *If all warrants were exercised, the Company would receive proceeds of approximately \$1.9 million. Since the exercise price is currently 50% higher than the current share price, in our opinion, exercise is unlikely with the expiry date only two months away.*

On April 7, 2005 Star completed a \$320,000 private placement at \$0.10 per share. The Company issued 3.2 million units that included 1 common share and 1 warrant, which entitle the warrant-holder to purchase 1 additional share at \$0.10 per share. The expiry date of the warrant is March 21, 2007. The proceeds of this private placement financing are being used for general working capital purposes.

On June 21, 2005, the Company completed the issuance of 350,000 Series "A" preferred shares at \$1.00 a share for gross proceeds of \$350,000. The preferred shares have a term of three years and will be converted into common shares by way of a warrant at the holders' option and yield a 9% interest coupon, paid quarterly. The 350,000 Series "A" preferred share warrants entitle the holder to exchange 1 preferred share for 5 common shares in one year, 1 preferred share for 3.3 common shares in two years, and 1 preferred share for 2.5 common shares in three years. The Company paid its preferred share issuance advisors, a finder's fee of \$15,000 and 125,000 common shares. Proceeds of the share issuance will be used to finance the installation of the ISMS units starting with SpiceJet.

On September 19, 2005, the Company completed a \$760,000 private placement at \$0.25 per share. The Company issued 3.04 million common shares and an equal amount of warrants entitling the holder to purchase one additional share at \$0.45 for a term of one year. The shares issued are restricted from trading until January 16, 2006. The proceeds of this private placement financing are being used for general working capital and for continuing global expansion.

Capital Structure: As of March 31, 2005, the Company had 40,247,889 common shares, or 43,447,889 fully diluted, with \$504,808 in short term debt and \$1,534,495 due to related parties. There are 615,000 non-voting preferred shares, redeemable at \$1.00 per share. At its recent share price of \$0.305, this represents a market capitalization of \$12.3 million. In the past, the Company has eliminated debt by exchanging debt for common shares. In June 2004, the Company reached an agreement with directors, related parties, employees, and third parties to exchange debt totaling \$1,046,493 for 3,488,307 shares. In August 2004, the Company exchanged 3,571,500 common shares for debt of \$1,071,451. These exchanges enable the Company to direct its cash towards research and development and marketing activities. Star Navigation System's senior executives, Viraf Kapadia, Chairman and Chief Executive Officer, Hilary Vieira, President, and Peter Verbeek, a Director, together own 16.2 per cent of the Company's shares.

Stock Options: On April 13, 2004 the Company announced that 3,310,000 shares had been reserved for employees, officers, and directors of the Company. On June 28, 2004 Star Navigations Systems granted 2,100,000 stock options to various employees, directors, and consultants exercisable at \$0.45 for a period of five years from the date that the options were granted.

Warrants: As of March 31, 2005, 7,446,375 warrants were outstanding at a price range of \$0.10 to \$0.65 per warrant with expiry dates from December 31, 2005 to March 21, 2007. During the quarter ended March 31, 2005, 3,200,000 warrants were issued as part of a private placement at \$0.10 per warrant with a expiry date of March 21, 2007.

Audits: It should be noted that the Company's auditors resigned on November 15, 2004 of their own initiative without completing their audit for the year ending June 30, 2004. Successor auditors were engaged but were unable to file the required financial statements by the deadlines established by the TSX Venture Exchange. The audited statement for the year ending June 30, 2004 were completed on November 25, 2004.

Table 1: Star Navigation Selected Financial Information and Earnings Forecast

	Nine Months Ending March 31		Year Ending June 30					
	2004	2005	2002	2003	2004	2005E	2006E	2007E
Statement of Income/(Loss):								
Revenues	0	0	0	0	0	0	11,566,224	30,839,432
Cost of Sales	0	0	0	0	0	0	6,014,436	15,419,716
Gross Margin \$	0	0	0	0	0	0	5,551,788	15,419,716
Gross Margin %							48%	50%
General & administrative expense	841,710	640,286	723,887	1,102,096	1,012,130	845,148	950,000	1,500,000
Research & development	691,690	493,968	730,384	941,321	794,986	645,949	2,200,000	2,000,000
Sales & marketing	273,258	142,065	217,175	142,106	491,823	168,580	500,000	650,000
Stock-based compensation	0	183,286	0	0	2,613	199,721	200,000	200,000
Operating profit (EBITDA)	(1,806,658)	(1,459,605)	(1,671,446)	(2,185,523)	(2,301,552)	(1,859,398)	1,701,788	11,069,716
Amortization	9,504	8,309	30,860	16,286	11,322	10,928	50,000	65,000
Net income/(loss) before taxes	(1,816,162)	(1,467,914)	(1,702,306)	(2,201,809)	(2,312,874)	(1,870,326)	1,651,788	11,004,716
Income taxes							-	984,406
Net income/(loss)	(1,816,162)	(1,467,914)	(1,702,306)	(2,201,809)	(2,312,874)	(1,870,326)	1,651,788	10,020,310
Average Shares (fully diluted)	29,142,204	36,903,735	22,512,176	22,512,176	29,142,204	50,820,284	53,860,284	53,860,284
Earnings (Loss) Per Share	(\$0.06)	(\$0.04)	(\$0.08)	(\$0.10)	(\$0.08)	(\$0.04)	\$0.03	\$0.19
Statement of Cash Flow:								
Net Income/(Loss)	(1,816,162)	(1,467,914)	(1,702,306)	(2,201,809)	(2,312,874)	(1,870,326)	1,651,788	10,020,310
All Non-Cash Items	1,080,770	888,385	551,668	1,222,796	1,245,194	1,170,326	250,000	265,000
Cash Flow from Operations	(735,392)	(579,529)	(1,150,638)	(979,013)	(1,067,680)	(700,000)	1,901,788	10,285,310
Capital Expenditures	(27,342)	(1,720)	(198,902)	(52,841)	(5,113)	(19,540)	(120,000)	(180,000)
Other Investing Items	(5,113)	(17,820)	(61,286)	(99,500)	(2,916)	-	-	-
Free Cash Flow	(767,847)	(599,069)	(1,410,826)	(1,131,354)	(1,075,709)	(719,540)	1,781,788	10,105,310
Working Capital Changes	(2,004)	75,050	85,454	190,429	(20,060)	75,050	20,000	(200,000)
Equity Financing	92,633	320,000	1,522,563	607,000	926,330	320,000	760,000	-
Debt Financing	-	344,808	-	133,800	160,000	344,808	(100,000)	-
Change in Cash	156,479	140,789	197,191	(200,125)	(9,439)	20,318	2,461,788	9,905,310
Cash, Beginning of the Period	19,125	9,686	22,059	219,250	19,125	9,686	30,004	2,491,792
Cash, End of the Period	175,604	150,475	219,250	19,125	9,686	30,004	2,491,792	12,397,101
Balance Sheet:								
	As at March 31	2005	2002	2003	2004	2005E	2006E	2007E
Cash	175,604	150,475	219,250	19,125	9,686	30,004	2,491,792	12,397,101
Other Current Assets	171,143	174,795	178,117	131,646	186,399	60,000	60,000	60,000
Current Assets	346,747	325,270	397,367	150,771	196,085	90,004	2,551,792	12,457,101
Capital Assets	61,496	28,664	59,944	43,658	35,252	27,252	97,252	212,252
Investments	227,000	-	-	227,000	-	-	-	-
Other Assets	102,248	120,067	275,696	97,135	102,248	100,000	100,000	100,000
Total Assets	737,491	474,001	733,007	518,564	333,585	217,256	2,749,044	12,769,353
Loans payable (within 1 year)	-	504,808	-	133,800	160,000	700,000	600,000	600,000
Other Current Liabilities	940,974	684,240	265,415	532,749	237,321	730,000	950,000	950,000
Current Liabilities	940,974	1,189,048	265,415	666,549	397,321	1,430,000	1,550,000	1,550,000
Loans due to related parties	1,546,827	1,444,000	672,760	972,293	1,186,180	1,500,000	1,500,000	1,500,000
Other payables	293,000	296,500	-	167,000	241,000	328,498	328,498	328,498
Total Liabilities	2,780,801	2,929,548	938,175	1,805,842	1,824,501	3,258,498	3,378,498	3,378,498
Shareholders' Equity	(2,043,310)	(2,455,547)	(205,168)	(1,287,278)	(1,490,916)	(3,041,242)	(629,454)	9,390,855
Total Liabilities & Equity	737,491	474,001	733,007	518,564	333,585	217,256	2,749,044	12,769,353
Book Value (S.E.) Per Share	(\$0.06)	(\$0.06)	(\$0.01)	(\$0.05)	(\$0.04)	(\$0.08)	(\$0.01)	\$0.19

Source: eResearch

COMMENT: Star Navigation Systems is on the threshold of generating considerable revenue and net income as a result of the contracts it now has in place plus future expected contracts which are at an advanced level of negotiation. If our projected forecasts are realized, the Company will become marginally profitable in the current fiscal year (ending June 30, 2006), then achieve a substantial leap in profitability, to around \$0.20 per share, in fiscal 2007. Shareholders' Equity is also expected to turn positive, with the forecasted book value per share also reaching close to \$0.20 per share in fiscal 2007. The Company's operations do not require substantial sums of capex, so no major equity financing in the future seems warranted. With the substantial sums of cash likely to be realized, we expect that the non-interest-bearing loans will be repaid.

VALUATION

For the purposes of valuation, we have assumed that Star Navigation Systems will be able to sell 80 ISMS units in fiscal 2006 and approximately 171 units in fiscal 2007 based on the contracts and discussions held to date with airlines. Additional revenue will be generated from the monitoring and reporting functions. With other related services, more revenue in fiscal 2006 could be generated but we have assumed that these other services will still require more development time and may not be ready to be commercially marketed until after 2007. We have assumed that Star Navigation System will be relying on the ISMS system and its monitoring and reporting services solely for revenue in both fiscal 2006 and 2007.

The Company appears to have established some important alliances and is negotiating contracts with airlines and maintenance companies in Asia and the Middle East. The challenge for Star Navigation Systems, however, will be whether they can move quickly enough to realize the expected sales in fiscal 2006 and our increased sales target in fiscal 2007.

Price Multiples: We have used a price earnings (P/E) multiple range of 10x to 14x, which is a fairly low range for a high tech sector Company, but it reflects the start-up nature of Star Navigation Systems. We have employed a conservative price multiple range because the Company faces challenges in terms of formalizing contracts. Granted it is in discussions with numerous airlines around the world but, for most of these potential customers, formal contracts are yet to be concluded. At the same time, Star Navigation Systems has increased its international sales force which will greatly assist in growing its markets.

Discounted Present Value: Based on the above assumptions, the estimated blended earnings per share for fiscal 2006 and 2007 is \$0.07. With a price earnings multiple range of 10x to 14x, and the corresponding prices of \$0.70 and \$0.98, the midpoint is \$0.79. Discounted at 40% , this mid-point price is converted to a Target Price of \$0.47. This price target represents an increase of more than 54% in Star Navigation System's share price, which is currently \$0.305. This Target Price is also more than its 52 week high of \$0.35, our assumptions are based on the fact that the Company has moved out of its development phase into full scale marketing and, therefore, revenues should start to be generated.

MANAGEMENT AND DIRECTORS

Viraf Kapadia, Chairman and Chief Executive Officer

Mr. Kapadia brings over 33 years of experience in Europe, Asia, and North America in the fields of corporate finance, aviation, steel, and construction. He was appointed Chairman and CEO on August 29, 2002. Mr. Kapadia graduated with a Bachelor of Commerce (Honours) degree from Poona University in Poona, India.

Hilary Vieira, President and Technical Director

Mr. Vieira has over 20 years of experience in information technology projects in North America, Asia, and the Middle East. His software expertise is diverse, extending to the fields of health care, construction, financial management, accounting, and aerospace. He was appointed President and Technical Director on August 29, 2002. Mr. Vieira has a Diploma of Computer Management from the Indian Institute of Computer Management in Ahmedabad, India.

Andrey J. Szpynda, Vice President, Marketing & Operations

Mr. Szpynda has over 10 years of experience starting, operating, and restructuring private and public companies and has held management, corporate executive, and board positions in a variety of industries in both Canada and Europe. His areas of expertise include telecommunications, manufacturing, construction, and distribution. As the Divisional Director and Executive Board member of the world's largest glass manufacturer and processor, he directed restructuring in Switzerland and downsizing in Poland. In the Ukraine, he founded and operated a distribution company for the world's largest petroleum conglomerate.

Peter Verbeek, Director

Mr. Verbeek is an outside director. He is a lawyer with over 25 years of legal experience in Canada and has run his own legal practice since 1984. He has had extensive experience with public companies and is the president and chairman of a start-up over-the-counter company that specializes in information technology.

Ibraqhim Al-Hamer, Director, Middle East Operations

Mr. Al-Hamer has over 30 years of experience in the aviation, aluminum, petroleum, and banking industries. He has served on the board of two public companies traded on the Bahrain Stock Exchange. Until 2001 he was the Chairman of the Executive Committee of the Bank of Bahrain and Kuwait. For more than 16 years, he was the Chairman of the Board of the Bahrain Hotels Company. He is also the former Undersecretary of Civil Aviation in the Bahrain Ministry of Transport. In addition, he was the CEO of Gulf Air Bahrain, one of the largest airlines in the world.

Pierre Jeannot, Chairman, Strategic Advisory Committee

Pierre Jeannot was appointed Chairman of Star Navigation System's Strategic Advisory Committee on April 25, 2005. Mr. Jeannot was the Director General and CEO of the International Air Transport Association (IATA) from January 1993 to January 2002. During his tenure, Mr. Jeannot transformed IATA into the acknowledged leader of commercial air aviation around the world. Under his direction, IATA became the major supplier of products and services for the international aviation industry. He was later awarded the lifetime title of Director General Emeritus in recognition of his outstanding contribution to civil aviation. From 1984 to 1990, he held the position of Chair of Air Canada. Prior to being appointed President and CEO of Air Canada, he held positions in several key departments at the airline including Operations, Marketing, Strategic Planning, and Technical Services. He was appointed Chairman of Thales Canada on May 1, 2003. Mr. Jeannot served on the board of the Bank of Nova Scotia for 14 years. He has also served as a director on the boards of airlines, telecommunications companies, airports, and publishing houses.

Richard Buzbuzian, Advisor

Mr. Buzbuzian has extensive experience in the public securities sector and participates as both a principal and an advisor to a number of Canadian companies. He is the founder and president of the private equity company,

Blueback Capital Corp., and has developed a strong rapport with the Canadian financial community, including the TSX Venture Exchange as well as various investment houses and institutions. Mr. Buzbuzian is currently an independent director and Chairman of the Audit Committee of Armada Data Corp.

TECHNOLOGY

ISMS Operational Process

The ISMS unit consists of a server unit, a satellite transceiver, a digital flight acquisition unit, and an antenna. The server unit acquires data from the aircraft's digital flight acquisition unit and then stores and analyzes it for exceeded tolerances (the "alerts") which have been pre-programmed into the server unit. The unit then encrypts the data for security purposes and sends the acceptable parameters and the "alerts" to the transceiver. The transceiver sends this data via the externally mounted antenna to the satellite relay. The relayed data is received by the ground-based satellite Internet gateway and transmitted securely to the Star Navigation Systems Ground Station, where it is decrypted, recorded, and monitored. Operator specified reports, such as end-of-flight reports, are produced. Alerts received are automatically analyzed to determine the order of severity and type of alert. Authorized airline operations engineering and maintenance personnel are then notified. Concurrently, the encrypted flight data and alerts are automatically available to the operator of the ground station securely over the Internet.

Airlines that purchase the ISMS system can set up their own ground monitoring system since the system merely consists of a high speed server (\$5,000) with substantial back-up capacity. Star Navigation Systems's ground monitoring system will carry back-up data just in case the specific airline loses their data. The Company's servers are more costly than the regular servers because they have larger memories and have built-in redundancies.

With respect to satellites, there is sufficient satellite coverage throughout the world so that any aircraft can have access to satellite facilities almost anywhere in the world. Although no satellite coverage is available north of 70 degrees north, and south of 70 degrees south, 98% of all commercial flights fly in the area between these two latitudes. Star Navigation Systems does not pay satellite access fees - rather, these fees are paid by the airline. As the number and capacity of satellites increases, the costs of accessing satellites decreases. Satellite time costs range but average \$1.00 per minute. The Company is attempting to decrease that cost to the airlines designing systems that would report at the crucial take-off and landing times rather than when the aircraft is in cruise mode. Statistics reveal that more than 80% of airline accidents occur during take-off and landing.

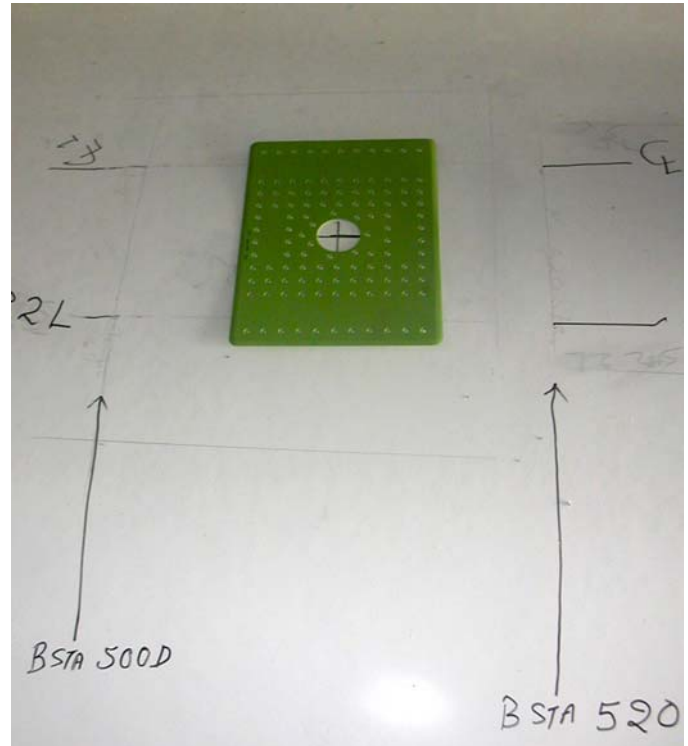
Currently, Star Navigation Systems contracts out the building of the ISMS unit hardware components to American companies, and its full time staff in Toronto then configures these units and adds the software components. If demand increases, the Company believes that its current suppliers can add more production teams. Meeting additional market demand is fairly easy as installation time per ISMS unit is roughly 100 hours. Setting up the equipment to construct the ISMS unit requires about 60 days.

The ISMS is not aircraft specific so it can be used by any airline. The ISMS can also be installed on new or existing planes - the acquisition and installation costs are the same.

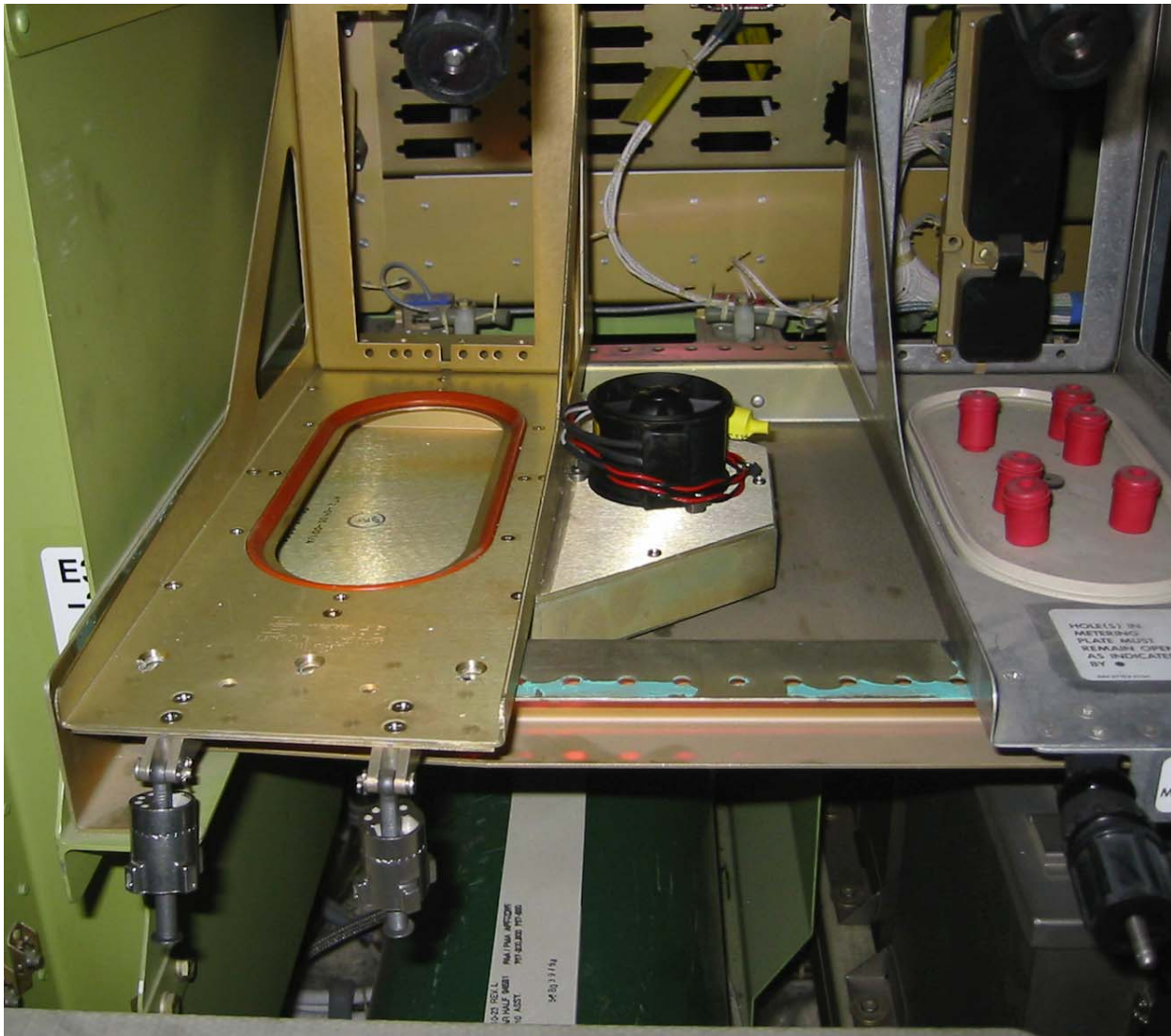
The ISMS unit can reduce airline costs in the following ways:

- 1) by reducing aircraft down time since problems are reported when the aircraft is still in flight;
- 2) by being pro-active and reporting potential problems before they occur;
- 3) by keeping airlines fully informed with end-of-flight reports;
- 4) by enabling systems experts to provide advice to pilots since any number of world experts can be brought in to advise where there is an Internet connection.

Figure 2: Photographs of Antennae and Avionics Bay



Source: Company



Source: Company

PROJECTS

A. Airline Contracts

Star Navigation Systems is still in an initial marketing and installation stage but is on the verge of generating revenue from contracts that it has recently concluded in the Middle East, where air travel is growing at one of the fastest rates in the world.

1. Gulf Aircraft Maintenance Company

In April 2004, Star entered into a ten-year commission-based contract with the Gulf Aircraft Maintenance Company (GAMCO), a joint venture between the Government of Abu Dhabi and Gulf Air, which recently celebrated its 50th anniversary. GAMCO, which is located in the Abu Dhabi Airport and services aircraft from the Gulf and Far East regions, will become the sole entity authorized to represent, install, and monitor the ISMS in the United Arab Emirates. GAMCO will also assist Star in obtaining Supplemental Type Certificates that are required in order for the ISMS to be installed in commercial aircraft manufactured by Boeing and Airbus. This contract could result in the delivery of as many as 100 units in the next two years, enabling the Company to record significant revenues.

2. Etihad Airways

In November 2004, GAMCO was instrumental in obtaining a contract for Star Navigation Systems with Etihad Airways, one of the airlines in the United Arab Emirates for which GAMCO provides maintenance facilities. GAMCO will install the ISMS on an Airbus 340 aircraft on a trial basis and will eventually be the monitoring station for the data that is generated. Etihad Airways in the United Arab Emirates was formed last year and has signed for purchases of \$7 billion worth of aircraft.

3. Royal Airways/SpiceJet

In March 2005, the Company signed a contract with Royal Airways of India to install ISMS units in all the aircraft of their new SpiceJet airline. Royal Airways and SpiceJet are small discount airlines. Although both airlines were profitable last year, competition is increasing with the formation of other airlines. The resulting airfare price wars and rising fuel prices have created challenges for these new airlines. India's domestic air travel market is still small. Only 15 million people fly within India each year, whereas 3 million people fly in the United States every day.

SpiceJet has placed orders for 20 Boeing 737-800 airplanes worth over \$1.26 billion. SpiceJet intends to double the size of their fleet over the next four years. Based on the airlines' expansion plans, the Star Navigation contract is estimated to be worth \$9 million. The planned expansion will position SpiceJet as one of the major airlines in the Asian subcontinent.

SpiceJet will take delivery of the first three ISMS units in April 2005. The systems will be installed on SpiceJet's Boeing 737-800s at GAMCO.

Star Navigation is also launching the world's first WiFi systems on board a SpiceJet aircraft, which will allow the aircraft to communicate with the airline's corporate local applications network (LAN) and enable high speed data downloads and uploads, when it is within a certain distance of the airport. Star Navigation Systems will be the first company in the aviation industry to have such a system certified for use on a commercial aircraft.

4. Air Sahara

Air Sahara operates one of the leading commercial airlines in Asia. Based in New Delhi, India, Air Sahara is a private company that operates a fleet of 19 aircraft and four helicopters. Air Sahara services 111 flights with 11,300 seats daily to all major cities across India and internationally. Air Sahara is adding additional aircraft to its fleet to accommodate the growing market in Asia for air transportation. Air Sahara and another private airline, Jet Airways, have captured 65% of India's domestic market. Both Jet Airways and Air Sahara were profitable last year because of a booming market for passenger air service in India. Air Sahara has just started flying to other destinations outside India, including London and New York. In March, Air Sahara announced that it intends to triple the size of its fleet to 40 aircraft.

In June 2004, Star Navigation Systems announced that the Company had installed and tested the ISMS unit on an Air Sahara 737-700 aircraft in India. This marked the first time in history that flight data on a commercial aircraft has been monitored in real time while in flight. The data was received live via satellite. The data transmission was monitored by the Company's Toronto office, by the Director General Civil Aviation, India officials, as well as by Air Sahara Quality Control Management, Engineering, and Flight Safety staff. The ISMS unit enables the operators to upload new data configurations, via the SATCOM satellite system, reducing the amount of time required for fleet maintenance and resource requirements.

The Supplemental Type Certificate (STC) was issued by Transport Canada on March 24, 2004 for the full activation of the ISMS system onboard an Air Sahara Boeing 737-700 aircraft. The Supplemental Type Certificate permits the streaming of data during a regular domestic flight and the analysis of data for operational and operator defined parameters, including alerts, to a ground station via a satellite communications system.

This installation is the first phase in an agreement signed in January 2004 whereby the successful installation is to pave the way for the installation of a minimum of 15 ISMS units on Air Sahara aircraft fleet.

Star Navigation Systems is also providing Air Sahara aircraft with a cordless telephone installation in the passenger cabin for passenger use and will be an additional source of revenue for the Company.

5. A.R. Airways (Club One)

In July 2005, Star Navigation signed a letter of intent for the installation of ISMS units with A.R. Airways of New Delhi, India. On August 22, 2005, the contract was formalized and is estimated to be worth \$2.5 million. This contract marks the foray of the Company into the VIP jet service market.

B. Secondary Applications

1. Medical Monitoring System

On April 13, 2004, Star Navigation Systems announced that it had signed an agreement with Sunnybrook Hospital in Toronto to design, develop, and market the medical monitoring component of the ISMS. The aerospace technology, software development, and certification of the products will be undertaken by Star Navigation Systems and will remain the property of the partnership. Marketing will be jointly undertaken by Star Navigation Systems and Sunnybrook, with Star Navigation Systems marketing in the commercial arena and Sunnybrook marketing in the medical community. The project has been designed with a global strategy in view thus enabling a marketing thrust in the global market for medical services and commercial airline operators.

This project will establish a direct link between the aircraft and the ground with patients/passengers being monitored by medical equipment and transmitting statistics in real time to the ground facility where doctors can make informed decisions on medications and/or treatments to be administered prior to the arrival at hospital. The availability of this real time data and the communications link will allow for better planning and allocation of medical resources with patients being routed to hospital and medical facilities best suited to their medical condition. Advance availability of data will also reduce the pressure on the emergency department of hospitals because of more efficient deployment of resources.

A proto-type was developed in 2004 and project completion is expected by June 2005 HAS IT???? with Sunnybrook Hospital being the first medical institution to test and use the system.

2. WiFi

Star Navigation is also launching the world's first WiFi system on board a SpiceJet aircraft, which will allow the aircraft to communicate with the airline's corporate local applications network (LANs use high frequency radio waves to transmit data rather than wires to communicate between different points) and enable high speed data downloads and uploads. Star Navigation Systems will be the first company in aviation industry to have such a system certified for use on a commercial aircraft.

WiFi is short for "wireless fidelity". The term "WiFi" is used when referring to any type of 802.11 network, which is a type of wireless network that connects to an organization's local network. WiFi specifications are developed by the Institute of Electrical and Electronic Engineers (IEEE), the world's largest technical professional society serving the computing, electrical engineering and electronic professions. The IEEE engages in technical, educational, and professional activities that advance the theory and practice of electro-technology.

3. Home Entertainment Products

In April 23, 2003, Star acquired 55% of Global Webcom Inc., a private Toronto-based company specializing in the delivery of home entertainment products via interactive TV. Global Webcom is in the development stage and generates no revenues. Global Webcom will continue to develop its home entertainment and wireless communication products for the aerospace industry, such as video security surveillance, high-speed Internet access, and video on demand.

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- Operational - Weak competitive market position, high cost structure, industry consolidating, business model/technology unproven or out-of-date.
- Medium Risk:** Financial - Several years of revenue and positive earnings, balance sheet in line with industry average, positive free cash flow, adequate working capital solvency, may or may not pay a dividend.
- Operational - Competitive market position and cost structure, industry stable, business model/technology is well established and consistent with current state of industry
- Low Risk:** Financial - Strong revenue growth and earnings over several years, stronger than average balance sheet, strong positive free cash flows, above average working capital solvency, company may pay (and stock may yield) substantial dividends or company may actively buy back stock.
- Operational - Dominant player in its market, below average cost structure, company may be a consolidator, company may have a leading market/technology position.

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