Star Navigation Systems Group Ltd.
Management's Discussion and Analysis
For the three-month periods ended September 30, 2012 and September 30, 2011

1. Date – November 29, 2012

The following management discussion and analysis ("MD&A") is a review of operations, current financial position and outlook for Star Navigation Systems Group Ltd. (the "Company" or "Star") for the three month-period ended September 30, 2012 and 2011 and should be read in conjunction with the consolidated audited financial statements for the years ended June 30, 2012 and June 30, 2011. Amounts are reported in Canadian dollars based upon the financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). Information contained herein is presented as at November 29, 2012.

Certain information in this MD&A or incorporated by reference, and in other public announcements by the Company is forward–looking and is subject to important risks and uncertainties. Words such as "may", "will", "believe", "expect", "anticipate", "estimate" and similar expressions identify forward-looking statements. Forward-looking information includes information concerning the Company's future financial performance, business strategy, plans, goals and objectives. Forward–looking statements are necessarily based upon estimates and assumptions considered reasonable by management but which are subject to business, economic and competitive uncertainties. Results could differ materially from those projected in forward-looking statements. The Company continues to pursue sales and marketing efforts in the Middle East and developing countries. Therefore, the Company is potentially subject to risks involving political unrest, cultural differences, differing legal systems and business practices, and the significant added expense of travel and accommodation for Company personnel required to be onsite for sales, testing and installation duties. The Company endeavours to mitigate these risks as much as reasonably possible through the judicious use of secure financial instruments, experienced local sales agents and coordinated travel arrangements. Ongoing political events in the Middle East have resulted in some restriction of the Company's efforts there, although the Company recorded a sale to MidWest (Egypt) Airlines ("MidWest"). Local regulatory issues have delayed implementation of that sale. On June 22, 2011, the Company entered into an agreement with Paradigm Services Limited ("Paradigm"), part of the European Aeronautic Defense and Space Company EADS N.V. ("EADS") group of companies, to market the Company's In-Flight Safety Monitoring System ("STAR-ISMS®") as part of the Airborne Data Service ("ADS") being offered by Paradigm and the Company to the commercial aviation community. It is primarily focused on the Middle East, North America and Europe at the present time. This is a new venture and although viewed as a significant opportunity by the Company, is subject to the risks and uncertainties inherent in any new undertaking.

Factors which could cause actual results to differ materially from current expectations include, among other things, the ability of the Company to successfully implement its strategic and financing initiatives and whether such strategic and financing initiatives will yield the expected benefits. Competitive conditions in the business in which the Company participates, supply chain interruptions, general economic conditions and normal business uncertainty, fluctuations in foreign currency exchange rates and changes in laws, rules and regulations applicable to the Company in the jurisdictions in which the Company operates are all factors to be taken into consideration. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements, whether as a result of new information, or future events or otherwise, except as may be required by law.

If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law.
Readers are cautioned that forward-looking statements are not guarantees of future performance.

Further information relating to Star is available on SEDAR at www.sedar.com.

2. General Development of the Business

History

Star commenced its operations in May 2000 and was listed on the TSX Venture Exchange (the “Exchange”) on August 29, 2002, under the symbol ‘SNA’. The Company’s head office is in Toronto, Ontario. Star has successfully tested, marketed and sold technology platforms that offer operators of land, sea and air assets real-time data-solutions which allow them the opportunity to reduce costs, track assets and enhance aviation and operator safety. The Company’s products have global sales potential for both new and existing aircraft as well as other transportation assets. Star has the exclusive world-wide license to the patented STAR-ISMS® technology. Patents have been granted by Canada, the United States, the United Kingdom, India, Hong Kong and Australia.

Star has entered into an agreement with Paradigm, a unit of Astrium Services (part of EADS) to market and sell the ADS worldwide. The ADS will combine Star’s STAR-ISMS® technology with Astrium’s experience in secure satellite communication, data management centers, data handling, service delivery and satellite operation. The responsibility for strategically executing this venture has been delegated to a Service Management Committee (“SMC”) composed of senior personnel from both parties.

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

Capability of the STAR-ISMS® G2 System

The current system has been designed to provide real time, analyzed data over the Iridium satellite constellation. If the data indicates exceedance of the customer specified parameter limits for a particular system or function, then the Iridium voice module is activated and sends down a continuous stream of data for a predetermined time covering data generated both before and after the triggering event.

The system will continue to send the aircraft position via the Data Management Centre ("DMC") operated by Paradigm. As the information is sent from the aircraft, senior management and critical ground crew will be updated on their computer screens. This will allow the ground crew and senior management to make and to optimize the decisions necessary to correct a problem and to endeavour to eliminate any safety threats or potential costly delays on the ground.

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

Selected Financial Information and Management's Discussion and Analysis

Annual Information

The fiscal year end of the Company is June 30. The following table summarizes the Company's audited financial results for the years ended June 30, 2012, 2011 and 2010.

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

The Company continues to experience losses as it moves toward full commercialization of its STAR-ISMS® product. In the fiscal year ended June 30, 2012 the Company sustained a loss of $3,059,143 compared to $3,758,212 for 2011. Losses for the last 3 years (2012, 2011 and 2010) are averaging $3,664,524 per year.

The major factor that has been contributing to these losses has been the Company's protracted transition from a research and development ("R&D") company into a company that is delivering product into the commercial market.

Work in the past year has been focused on consolidating enhancements to the software and migrating from the Windows operating platform to the Linux platform, adapting the software to interface with the Astrium Graphical User Interface ("GUI") and the new Star Server Unit G2 ("SSU G2") box, and developing the delivery mechanisms relative to the ADS.

The Company's focus and attention is now and will continue to be, very strongly directed towards commercialization of its core product, the STAR-ISMS®, the development and roll-out of the ADS, closing current sales initiatives with commercial airlines and continued development of other products currently available or in development. In the aerospace industry this process can be long and challenging, which has forced the Company to continue to rely on raising capital through private placements to fund R&D and operational expenses that are needed to bring this project to fruition.

As can be seen from the table above, total assets for the years ended 2011 and 2010 were fairly close in value as the Company's cash levels were sufficient to operate the Company. Assets in the fiscal year ending June 30, 2012 have dropped to less than half of 2011. The Company completed a private placement in February 2012, which raised $1,520,000 and completed another private placement in September 2012 that raised a further $2,088,000. The Company also completed a debt conversion in November 2012 which has reduced the Company's debt load even further (see Subsequent Events).

The Company has minimal long-term debt as at September 30, 2012 and continues to manage its cash balance conservatively until it has completed some larger orders for its STAR-ISMS® product.

Overview and Overall Performance

The Company continues to sustain losses as it pushes towards full commercialization. The Company completed a private placement in September 2012 that raised over $2.08m dollars. This will allow the Company to operate comfortably while it completes the ADS pilot project (See Operational Milestones). The cash balance at June 30, 2012 was $67,262 whereas the balance at September 30, 2012 is $1.345m. Assets are up since June 30 by $1,238,884 driven mainly by the private placement of September 2012.

Accounts receivable are up by $106,206 as a result of a sale to Paradigm for the ADS pilot project. Prepaid expenses are down $39,456 since June 30, 2012 due to realization of a miscellaneous recovery.

Inventory is down by $52,500 as Star completed a sale to Paradigm. Star now has multiple units of its STAR-ISMS® in stock and ready for sale. Capital Assets have decreased by the quarterly depreciation recorded. There were no Capital Asset additions in this quarter. Intangible assets also decreased by quarterly amortization and a small asset purchase of $6,537.

Accounts payable and accrued liabilities are down significantly by $207,487 from June 30, 2012 as the Company used some of the money it raised to reduce accounts payable.

Amounts due to related parties have dropped by $83,617 from June 30, 2012 due to some of the Company directors, officers and Strategic Advisory Board members utilizing some of their accrued compensation in order to participate in the private placement in September.

The Company's share capital continues to rise in fiscal 2013. Total common shares outstanding rose from 207,240,078 at June 30, 2012 to 235,761,203 at September 30, 2012. The Company completed a private placement in September 2012 netting over $2.0m.

Results of operations continue to show losses. However, the Company is now moving from a "development stage" company to a "commercial" company with a fully viable product that it expects will be able to turn the tide on the quarterly losses. The Company will continue to invest money in the development of its STAR-ISMS® unit and the ADS service. The Company and Paradigm are now fully involved in the first ADS Pilot project with Air North, which began in August 2012. To date, customer input from Air North has been very valuable and has resulted in further enhancements being made to the service. Paradigm has the DMC fully operational. The process for qualifying the SSU G2 box has been completed and it is ready for shipment to customers. The Company continues to enhance the capabilities of the SSU G2.

The Company entered into agreements with respect to sales of its STAR-ISMS® to MidWest. MidWest is the first customer for the STAR-ISMS®. Star received the Transport Canada ("TC") approved STC for the installation of the STAR-ISMS® on the Midwest 737-800 aircraft in April 2012. The Midwest sale is proceeding but delays have been encountered due to regulatory issues involved in obtaining the required STC validation for Egypt. Shaheen Air International has decided to upgrade its fleet and sell its 737-200/300 aircraft. As a result, the original agreement with Shaheen has been terminated and discussions are underway with respect to its new aircraft. At this time no significant progress has been made on this prospective sale.

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

The Company also successfully achieved AS9100 Rev C: ISO 9001:2008 certification in 2011. AS9100 Rev. "C" is the international quality management system standard for Aircraft, Space and Defense ("AS&D") industry. The standard is based on ISO 9001:2008 and includes additional quality system requirements specifically for aerospace. The standard provides manufacturers and suppliers with an internationally recognized quality system for providing safe and reliable products to the aerospace (civil, military) industry. Following the annual audit in January 2012, BSI Group Canada Inc. ("BSI') (the certifying organization) recommended Star for continued certification.

Other complimentary products such as "STAR-ISMS® Lite" (flight tracking and monitoring system incorporating two-way voice and data), STAR-ISMS® Ultra Lite (an airborne asset tracking and monitoring system), as well as Terrestrial Monitoring and Marine Monitoring (which serve the same purpose for land and marine applications), are available and continue to be marketed. See the Company's website at www.star-navigation.com for more information.

The Company continues its efforts to conclude existing sales initiatives with customers in Pakistan, India, Europe and North America. It is expected that some of these prospects will be migrated to the Paradigm/Star ADS sales team.

Discussions continue with appropriate governmental authorities in India concerning the granting of the Indian Aeromobile license required to use the STAR-ISMS® in Indian airspace, as the Company's system cannot be utilized in the absence of such approval. There continues to be no definitive progress and no indication of movement on the part of the Indian authorities. Further development of this market may have to await full commercial rollout of ADS.

While recent funding through private placements has enhanced the Company's financial position, strict hiring protocols and other cost cutting measures remain in place pending increased revenues. Attendance at promotional events such as air shows continues to be closely assessed in terms of value for investment and potential networking and relationship building opportunities.

Operational Milestones

During the year ended June 30, 2012 and for the three month period ended September 30, 2012, the Company has made the following progress towards achieving its objectives:

- The ADS team signed an agreement with Air North to participate in a Pilot Project demonstrating the capabilities of the ADS on one of their Boeing 737-500 aircraft. The STC was approved on August 13th 2012. The Pilot Project is continuing. Enhancements to the types of reports generated by the ADS, suggested by Air North, have extended the original Pilot Project timeframe. Expectations now see the Pilot Project being complete by mid to late February, 2013.

- CMC and Star are continuing to develop a joint product based on the CMC Tacview® and Pilotview® Electronic Flight Bags. Star has presented CMC with the interface design and development proposals and is currently waiting on CMC feedback to complete the joint development requirements specifications. The target date for a beta software package is the first calendar quarter of 2013.

- A significant milestone was achieved during the 3rd quarter of fiscal 2012 in relationship to the integration of the STAR-ISMS® software with the Astrium DMC and their customer GUI. To accomplish this, an additional module was added to the Star software that provided a seamless transfer of data to the Astrium DMC.

- The Company reviewed the capability of its current ground station services to serve those of its customers who will not be part of the ADS service. This review indicated that the previous upgrades from last year were adequate in the development phase, but would not be sufficiently reliable to support a full service. As a result the company identified and acquired the necessary hardware and software to supply a more appropriate service and minimize the internal support costs. There is now more than enough capacity for Star to develop and complete the required software in Toronto. The main ADS ground station will be located in Paradigm's facilities in the United Kingdom.

- The Company has installed new servers which are fully operational and in service. These servers will be used to enhance the internal R&D of the SSU G2 system and future work on the G3 box and the CMC partnership on EFB compatible software.

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

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

- Star continues discussions with other entities in China. It is anticipated that further talks will take place in China during the first quarter of calendar year 2013.

- In July, 2012, the Final Report of the intergovernmental working group formed to seek solutions to problems stemming from the Air France AF-447 loss was published and the Company was pleased to note that the capabilities of the STAR-ISMS® system directly address one of the main requirements of the report, that being the triggering of location data as soon as an emergency situation is detected onboard.

Outlook

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

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

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

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

- Manage additional funding opportunities and aggressively monitor operating and administrative expenses. The emphasis has moved to improved internal accountability and proper resourcing of the R&D function to avoid missing critical milestones and to delivering project deliverables on time and within budget.

- Continue to support the bid to become part of the COMAC 919 project in China. As stated previously, the Company has been informed that COMAC is still going through the selection process and that they have not yet decided/confirmed the second level/supplemental systems. Potential suppliers (including Star) have no control over the process at this stage.

- Continue R&D efforts to add functionality with respect to complete data download at the end of flight. Continuing to update the technology road map to compete in a wider range of markets.

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

- Continue to closely monitor and defend our Intellectual Property and to take a leading position in the market through innovation and fast response to the changing requirements of our customer base.

- Expansion of the revenue stream from existing STAR-ISMS® ,STAR-ISMS® Lite, STAR-ISMS® Ultra Lite and Terrestrial Monitoring products through effective sales, installation and world-wide marketing. As a result of our relationship with a Canadian mapping company we are able to offer exceptionally high reliability for our service along with geo fencing, weather mapping and accurate billing features. For more information see the Company's website at www.star-navigation.com.

The Company's focus continues to be exclusively on the commercialization and refinement of its product and on the furthering of the sales and marketing of our flagship product – the STAR-ISMS® system.

Summary of Quarterly Results

The following table sets out selected unaudited financial information, presented in Canadian dollars and prepared in accordance with IFRS. The information contained herein is drawn from interim financial statements of the Company for each of the aforementioned eight quarters.

(Expressed in $)

Three months	2012	2012	2012	2011
Period Ending	**September 30**	**June 30**	**March 31**	**December 31**
Revenue	117,536	15,940	18,841	19,623
Working Capital/(Deficit)	179,639	(1,403,649)	(586,787)	(1,474,554)
Expenses	706,589	749,423	772,982	823,379
Net Loss	(588,605)	(691,702)	(752,206)	(810,607)
Net Loss (per Share)	(0.0028)	(0.02)	(0.012)	(0.004)

	2011	2011	2011	2010
Period Ending	**September 30**	**June 30**	**March 31**	**December 31**
Revenue	18,268	24,872	20,896	21,019
Working Capital/(Deficit)	(819,142)	(185,932)	(443,455)	64,623
Expenses	826,206	1,640,451	137,056	750,657
Net Loss	(804,628)	(1,544,008)	(133,072)	(746,290)
Net Loss (per Share)	(0.004)	(0.02)	(0.000)	(0.004)

Quarter-over-quarter fluctuations for fiscal 2012 and 2011 are primarily as follows:

- Low and inconsistent revenue generation throughout the years
- Working capital for the three month period ended September 2012 has swung positive due to a private placement completed in September 2012 that raised $2.08m.
- Working capital fluctuations in fiscal 2012 were influenced primarily by the completion of a private placement that was completed in Q3 of fiscal 2012.
- For fiscal 2012 working capital has remained in a negative position for the whole year as the Company only completed one private placement in February 2012. The Company also at that time reduced its current liabilities such as accounts payable and accrued liabilities.
- Net losses for the years ending June 30, 2012 and June 30, 2011 were $3,059,143 and $3,758,212.

RESULTS OF OPERATIONS

Comparison of the three month periods ended September 30, 2012 and September 30, 2011.

The following commentary compares the unaudited condensed interim consolidated financial results for the three months ended September 30, 2012 and 2011.

Overview:

The Company sustained a loss of $588,605 for the three month period ended September 30, 2012 vs. a loss of $804,628 for 2011. The decrease in loss of $216,023 is due to many variances including but not limited to decreases in R&D costs, general and administration ("G&A") costs, marketing and promotional costs ("M&P"), foreign exchange costs and stock-based compensation.

The Company is confident that it will continue to build on increased market awareness and that with the start of the ADS pilot project with Air North, further sales will occur at an increased rate in the future.

The Company continues to expand its visibility in the overseas markets. It hopes that the increased exposure will lead to increased sales figures as the world-wide economy stabilizes and airline companies increase their capital spending. Both Boeing and Airbus have increased their forecasts for aircraft production through to 2030.

Revenues:

Revenues for the three month period ended September 30, 2012 have increased by $99,267 over the same period in 2011 as the Company has delivered several units of its STAR-ISMS® to Paradigm which will be used in ADS pilot projects.

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

The Company did not sell any of its STAR-ISMS® Lite units in the three month periods ended September 30, 2012 and 2011. The inconsistency in sales highlights the Company's push to market of its STAR-ISMS®.

Cost of Sales:

Cost of Sales has increased in this quarter ending September 30, 2012 as the Company has shipped several of its STAR-ISMS® units to Paradigm to be used in the ADS pilot program. Costs were also incurred by the Company for the STC it received on the Air North 737-500 aircraft.

The Company has effectively been offering its product at very attractive margins in previous periods to entice customers to purchase its products, see the usefulness of the product and to purchase other units. Sales of new aviation products can have a fairly long sales cycle and acceptance by several customers rather than just one is often a prerequisite to further sales. As a result the Company's margins have been kept low.

In the future the Company expects to sell for higher margins once they have gained a major commercial airline as a customer.

Research and Development:

R&D expenses have decreased by $98,829 over 2011 (2012 - $159,516 vs. 2011 - $258,345). This decrease was driven by a reduction in wage costs of $42,261 (2012 - $109,121 vs. 2011 - $151,382). The Company has not replaced the Chief Technology Officer ("CTO") position in this current period which was filled in the 2011 three month period. A decrease of $97,872 in materials and other costs occurred in the 2012 quarter as costs from 2011 were one-time only costs. Amortization costs increased by $48,063 (2012 - $59,835 vs. 2011 - $11,772) as the Company started to amortize its testing equipment starting in March 2012 and also purchased a new computer server in May 2012.

General and Administrative:

G&A expenses have decreased by $45,977 (2012 - $305,555 vs. 2011 - $351,532) for this three month period ending September 30, 2012. This decrease is a result of a combination of increases and decreases in several expenses in the G&A category.

Fees accrued to Board of Director members have increased in this quarter. The Company had 4 non-executive board members for the full quarter whereas in 2011, it only had two (which was increased to three in September 2011). The Strategic Advisory Board ("SAB") fees are nil for this current quarter as the Company has disbanded the SAB effective January 31, 2012. Fees for the SAB in 2011 were $15,500. Committee Chairperson accrued fees have increased as the Company has added a Compensation and Corporate Governance chair in the 2012 quarter. It only had an Audit Committee chair in 2011.

G&A consulting costs have increased by $9,000 in 2012 (2012 - $9,000 vs. 2011 - $nil) In 2012 the Company engaged the services of an executive familiar with the Company to aid it in facilitating talks with CMC. The Consultant receives $3,000 per month in fees.

G&A wages have increased by $15,848 in 2012 (2012 - $126,632 vs. 2011 - $110,784). The increase can be attributed to the hiring of a quality manager in October 2011.

Regulatory filing fees have increased in this quarter by $4,034 due to costs associated with the private placement it completed in September 2012. Insurance expense has increased by $3,478 over the same quarter in 2011 due to yearly insurance renewal increases.

Office expense has dropped by $7,628 over 2011 (2012 - $8,260 vs. 2011 - $15,888). Day to day operating costs are being controlled more efficiently by the Company in order to maintain consistent cash flow.

Professional fees have decreased in this three month quarter of 2012 by $73,129 (2012 - $40,967 vs. 2011 - $114,096). The decrease occurred as a result of legal fees decreasing by $60,629 from 2011. The legal fee decrease was driven by the Company having completed the Astrium negotiations in the June 2011 year-end which cost the Company $250,465. Audit fees for the 2011 year-end were under-accrued thereby resulting in audit fee costs being incurred in Q1 of 2011.

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

Marketing and Promotion:

M&P costs have been kept under control and have decreased by $33,875 in the first quarter of 2012 over 2011 (2012 - $60,210 vs. 2011 - $94,085). This decrease is primarily due to a reduction in investor relations costs and a reduction in travel costs for the marketing department in 2012. Investor relations costs decreased in this period by $15,000 over 2011, and total travel expense is down by $23,024.

The Company has focused more on getting the ADS pilot project up and running, funneling more resources to that and has carefully watched what it spent on other travel. Travel costs will continue to occur as the Company continues to push its message out to prospective customers around the world and especially south of the Canadian border, especially after completion of the ADS pilot project.

The Company maintains its satellite office in Atlanta, Georgia to take advantage of the large aviation presence there.

The Company has no employees in its M&P department as it has moved to the use of consultants when required. This allows the Company better control over the use of resources necessary to promote its product and allows it to enlist specialists where needed. Consulting costs have risen by $5,195 for 2012 (2012 - $56,145 vs. 2011 - $50,950).

Stock based compensation:

The Company has a stock option plan (the "Plan") for employees, officers, directors and consultants performing special technical or other services for the Company ("Optionees"). During 2010, the Company amended the Plan whereby the number of common shares to be issued under the Plan is not to exceed 30,000,000 (2009 - 19,589,684) common shares. In December of 2011, the shareholders approved an increase to 35,000,000 common shares. The designation of Optionees, amount, exercise price and vesting provisions of the stock options under the Plan are determined by the Board of Directors.

The Company applies a fair value based method of accounting to all stock-based payments. Accordingly, stock-based payments for employees are measured at the fair value of the equity instruments issued and stock-based payments for non-employees are measured at the fair value of the consideration received or liabilities incurred, whichever is more reliably measurable. Each tranche is considered a separate award with its own vesting period and fair value.

Stock-based compensation is charged to operations over the tranche's vesting period and the offset is credited to contributed surplus. Consideration received upon the exercise of stock options is credited to share capital and the related contributed surplus is transferred to share capital.

During the three month period ended September 30, 2012 stock-based compensation amounted to $48,636 vs. $103,926 in 2011. The decrease in stock-based compensation was due to the changeover to IFRS. This change which the Company instituted as of July 1, 2010 changes how the stock-based compensation on options that the Company grants is calculated.

Foreign Exchange Gain/Loss:

Monetary assets and liabilities denominated in foreign currencies are translated at the period end exchange rate. Non-monetary assets and liabilities as well as revenue and expense transactions denominated in foreign currencies are translated at the rate prevailing at the time of the transaction. Translation gain or loss adjustments are recognized in the period in which they occur. The Company transacts its sales and equipment purchases in US dollars. At September 30, 2012 the Company held $4,291 (2011 - $36,855) of cash and cash equivalents in US dollars.

Liquidity and Capital Resources

The Company had cash and cash equivalents of $1,345,195 at September 30, 2012 compared to a cash balance of $67,262 at June 30, 2012. The Company's cash balance was bolstered by the completion of a non-brokered private placement of 26,100,000 units (the "Units") of the Company at an issue price of $0.08 per Unit for gross proceeds totaling $2,088,000. Each Unit consists of one common share and one common share purchase warrant (a "Warrant"). Each Warrant entitles the holder to purchase one common share of the Company (a "Warrant Share") at a price of $0.20 per Warrant Share for a term of 60 months from the closing date. Finder's fees in the amount of $189,850 have been paid in Units in connection with this private placement. The Company now has working capital of $179,639 at September 30, 2012 compared to a working capital deficiency of $1,403,649 at June 30, 2012. The Company now has enough cash to cover its known operating expenditures for the balance of fiscal 2013. Due to the uncertain nature of its ability to close sales with major airlines, the Company cannot project with certainty what level of cash commitment it may face in the future. That being said, the Company may seek additional financing should it sign a major deal.

The Company is also engaged in talks with the supplier of the STAR-ISMS® unit with respect to reducing the amount of capital tied up in inventory and to reduce the cash to cash cycle. Other parts of the contract are being modified to flow down requirements from the ADS contract to the vendor and to ensure the Company's quality management system is integrated with our supply chain.

Future work with our supplier involves a comprehensive value engineering study to improve reliability and reduce costs as part of our continuous improvement program. The Company continues to keep its accounts payable current and does not suffer from any defaults on its lease commitments.

The Company is subject to the risks generally associated with high-technology development stage companies, which include fluctuations in operating expenses and revenues, and its ability to secure further equity or debt financing/funding which is subject to prevailing market conditions at that time.

There can be no assurance that management will be successful in raising the necessary capital required to continue the project but it has taken the necessary steps to address this concern.

Off Balance Sheet Arrangements

As at September 30, 2012 the Company had no off balance sheet arrangements such as guaranteed contracts, contingent interests in assets transferred to an entity, derivative instrument obligations or any instruments that could trigger financing, market or credit risk to the Company.

Outstanding Share Data

Series I First Preferred Shares	615,000
Common Shares (i)	235,761,203
Share Purchase Warrants (ii)	97,909,005 (exercise prices ranging from $0.20 cents to $0.50)
Stock Options	15,012,728 (exercise prices ranging from $0.10 to $0.32 with expiry dates up to February 24, 2016 and various graded vesting provisions).

(i) On September 17, 2012, the Company announced that it had completed a non-brokered private placement of 26,100,000 units (the "Units") of the Company at an issue price of $0.08 per Unit for gross proceeds totaling $2,088,000. Each Unit consists of one common share and one common share purchase warrant (a "Warrant"). Each Warrant entitles the holder to purchase one common share of the Company (a "Warrant Share") at a price of $0.20 per Warrant Share for a term of 60 months from the closing date. Finder's fees in the amount of $189,850 were paid in Units in connection with this private placement.

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

(ii) On August 28, 2012, the Company announced that it had extended the term of 10,875,000 common share purchase warrants issued pursuant to a private placement accepted for filing by the TSX Venture Exchange September 20, 2010 (the "Warrants"). The Warrants, set to expire on September 16, 2012, will now expire on September 15, 2015. Each Warrant will continue to entitle the holder thereof to purchase one common share of Star at an exercise price of $0.20.

Significant Accounting Policies

The unaudited condensed interim consolidated financial statements are prepared in accordance with IFRS and follow the same accounting policies and methods of their application as the most recent audited consolidated financial statements for the year ended June 30, 2012. These unaudited condensed interim consolidated financial statements should be read in conjunction with those audited consolidated financial statements.

Recent Accounting Pronouncements Issued and Not Yet Applied

Future IFRS changes

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

(i) IFRS 9 Financial Instruments was issued by the IASB in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets.

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The IASB has proposed to move the effective date of IFRS 9 to January 1, 2015.

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

(iii) IFRS 11 Joint Arrangements was issued by the IASB in May 2011. IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities.

IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities - Non-Monetary Contributions by Ventures, and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

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

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

The standard is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

Estimates

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

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

Related Party Transactions

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

As of January 31, 2012 the Company has disbanded the Strategic Advisory Board. Strategic Advisory Board members were business people with expertise in the Aviation industry who helped the Company attain access to the decision makers of major airlines to help promote the Company's STAR-ISMS®. They were remunerated at the rate of $15,000 per year.

Board of Directors Committee Chairpersons are selected from amongst the Directors of the Company to lead the Audit, Compensation and Corporate Governance and Strategic Planning and Human Resources committees. Chairpersons are remunerated at the following rates: Audit Chairman - $2,000 per month accrued, Compensation and Corporate Governance Chairman - $1,000 per month paid, Strategic Planning and Human Resources Chairman - $1,000 per month accrued. All of the above amounts are recognized in the financial statements of the Company. The terms for repayment of the amounts owing to the various Board, Advisory and Committee members are restricted. These amounts can only be settled when individuals wish to exercise options that have been granted to them by the Company or to participate in a private placement being done by the Company. Such amounts are non-interest bearing and unsecured.

At September 30, 2012, management estimates that there is the potential for the amounts due to be paid in the next fiscal year, and accordingly they have been classified as current liabilities. The only fixed contractual obligations the Company has with related parties are the compensation contracts it has with the CEO, COO, and CFO.

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

Due to Directors - $160,000 (2011 - $241,000), Due to Advisory Board members - $24,417 (2011 - $84,500) and Due to Committee Chairpersons - $24,000 (2011 - $100,000). and Due to Chief Executive Officer and Chairman of the Board of Directors - $1,007,248 (2011 – $1,097,366).

The amount owing to the CEO resulted from salary accrual in prior years including certain years where as CEO, no salary was taken due to the economic limitations the Company was experiencing at the time. The CEO also financed the Company at various times when the Company was experiencing funding shortfalls and deferred repayment until the Company attained financial stability.

Included on the statement of comprehensive loss for the three month period ended September 30, 2012, in general and administrative expenses is $162,689 (2011 - $160,000) in fees paid and accrued to directors and officers of the Company. An amount of $67,500 (2011 - $67,500) was paid to the Company CEO.

Board of Directors fees of $24,000 (2011 - $14,000) were accrued. Advisory Board fees of $Nil (2011 - $15,500) were accrued. Chairperson fees of $12,689 (2011 - $6,000) were accrued. Included in research and development is $Nil (2011 - $45,000) in fees paid and accrued to the Chief Technology Officer and a director of the Company (the individual ceased to be Chief Technology Officer effective February 1, 2012 and resigned as a director of the Company on April 13, 2012). Payments to the Chief Operating Officer $37,500 (2011 - $37,500) were accrued. Professional fees of $18,000 (2011 – $16,500) were paid to the Chief Financial Officer of the Company.

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

See also Notes 6 and 13 of the June 30, 2012 audited consolidated financial statements.

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

Financial Instruments and Other Instruments

Financial Instruments

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

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

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

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

Held-to-maturity (“HTM”)

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

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted on an active market. Such assets are initially recognized at fair value plus any direct attributable transaction costs.

Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment loss.

Available for sale (“AFS”)

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

Financial liabilities

Financial liabilities are classified into one of two categories:

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

Fair value through profit or loss

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

Other financial liabilities

This category is recognized at amortized cost.

Impairment of financial assets

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

For all financial assets objective evidence of impairment could include:

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

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

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

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

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

The Company had no other comprehensive income or loss transactions during the three month period ended September 30, 2012.

Subsequent Events

On November 6, 2012 the Company received regulatory approval to complete a common shares for debt conversion transaction (the "Debt Settlement"). The Company has entered into agreements with several creditors, including two directors and an officer of the Company, pursuant to which the Company issued from treasury, 2,550,463 common shares of the Company (the “Debt Settlement Shares”) at a deemed price of $0.08 per share in settlement of outstanding amounts. The Debt Settlement resulted in reducing Star's debts by $204,037. The Company decided to satisfy the indebtedness with shares in order to preserve cash. The issuance of the Debt Settlement Shares did not result in a change of control. The shares issued are restricted from sale for a period of four months plus a day after the date of issue.

On November 15, 2012, Star Navigation Systems Group Ltd. announced that it had applied to the TSX Venture Exchange (the “Exchange”) for approval of the extension of the term of certain common share purchase warrants and the repricing of others. The application was subsequently accepted by the Exchange as follows:

4,244,465 common share purchase warrants issued pursuant to a private placement accepted for filing December 3, 2008 (the “December 3, 2008” Warrants"), set to expire on December 1, 2012, will now expire on December 1, 2013. A full December 3, 2008 Warrant will now to entitle the holder thereof to purchase one common share of Star at an exercise price of $0.20.

3,052,550 common share purchase warrants issued pursuant to a private placement accepted for filing April 9, 2009 (the “April 9, 2009 Warrants") set to expire on December 1, 2012, will now expire on April 7, 2014. A full April 9, 2009 Warrant will now entitle the holder thereof to purchase one common share of Star at an exercise price of $0.20.

10,226,666 common share purchase warrants issued pursuant to a private placement accepted for filing November 10, 2009 (the “November 10, 2009 Warrants"), set to expire on December 1, 2012 will now expire on November 1, 2014. Each November 10, 2009 Warrant will continue to entitle the holder thereof to purchase one common share of Star at an exercise price of $0.20.

3,228,333 common share purchase warrants issued pursuant to a private placement accepted for filing December 7, 2009 (the “December 7, 2009 Warrants"), set to expire on December 1, 2012, will now expire on November 1, 2014. Each December 7, 2009 Warrant will continue to entitle the holder thereof to purchase one common share of Star at an exercise price of $0.20.

Risk Factors and Risk Management

Although management is working diligently towards generating revenue, improving cost containment and achieving profitable operations, the Company is subject to the risks generally associated with high-technology development stage companies. These risks include fluctuations in operating expenses, lengthy sales cycles, the pace of technological change, competition, regulatory approvals and permitting, and the need to secure further equity or debt financing and/or funding.

The Company is also subject to the risk of competition in a fast moving high technology industry. Protection of the Company's intellectual property carries the risk of expensive litigation. Retention of highly skilled key personnel, fluctuation of input costs, travel costs and general economic conditions may impact the Company's performance.

The Company’s revenues depend mainly upon two factors: hardware sales and ongoing monthly monitoring charges and airtime. Revenues from hardware are normally a one-time event and are dependent upon sales. Therefore, these revenues will vary from period to period. Revenue from a customer from ongoing monthly monitoring is relatively stable, but can vary depending upon usage and, in rare cases, upon the financial health of the customer. The Company is working diligently to increase the level of sales across its product suite, carefully monitors the payment records of its customers, and sets its pricing models to reflect risk and return realities.

Operating expenses are generally stable but will vary depending on required staffing levels, equipment update and replacement, sales activity and required R&D activities. These expense items are pre-revenue in nature. Also, as the Company is determined to protect its Intellectual Property, cases of potential infringement of patent are not predictable and the legal costs involved can be substantial. While all eventualities cannot be predicted, the Company maintains a sufficient level of funds to cover most contingencies.

The Company’s target clients for the flagship STAR-ISMS® system are mainly commercial airlines, in conjunction with the ADS service and Paradigm. As is the case with high technology sales to any large commercial operation operating on slim margins in a competitive environment, the sales cycle is generally a lengthy one, involving multiple varied sales presentations to several different departments and stakeholders, including engineering, finance, operations or the executive.

A large percentage of the Company’s sales initiatives prior to ADS involved non-North American customers, with the attendant travel and time requirements. Amongst other initiatives such as the ADS service, the Company is increasing its North American sales presence, refining its sales process, and making greater use of video conferencing.

In order to maintain and enhance its current competitive advantage, the research and development department of the Company is continually working to upgrade the existing functionality, size, weight and price point of the STAR-ISMS® system and development of the next generation G3 systems has commenced.

Although the Company’s exclusive world wide license to the patented technology underlying the STAR-ISMS® system provides a large measure of security, advances in technology are possible.

As has been demonstrated by duration of the Company's discussions with the Government of India with respect to the ability of Indian customers to utilize the STAR-ISMS® system in Indian airspace, regulatory matters can delay the sales process to varying degrees. The Company relies upon entities such as Transport Canada to issue approvals such as STC's, required whenever the Company is installing equipment aboard an aircraft. While TC works hard to provide excellent service, this is not always the case around the world.

Until revenues exceed expenses, the Company raises the necessary capital through private placements. There can be no assurance that management will be successful in raising the necessary capital required to fund pre-revenue activities.

Increasing recent focus by the Company on the ADS project also serves to mitigate some of these risks.

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

In accordance with National Instrument 52-109, Certification of Disclosure in Issuer's Annual and Interim Filings ("NI 52-109"), the CEO and CFO file a Venture Issuer Basic Certificate with respect to the financial information contained in the financial statements and accompanying Management's Discussion and Analysis. The Venture Issuer Basic Certification includes a "Note to Reader" stating that the CEO and CFO do not make any representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR"), as defined in NI 52-109.

As part of our corporate governance practices, ICFR and DC&P have been designed. There has been no formal evaluation of the operation of these controls. The Company has designed its ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance IFRS.

Management works to mitigate the risk of a material misstatement in financial reporting; however, a control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

The Company's DC&P have been designed to ensure that information required to be disclosed by Star is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure.

It should be noted that while the Company's CEO and CFO believe that the Company's DC&P provide a reasonable level of assurance that they are effective, they do not expect that the DC&P or ICFR will prevent all errors or fraud. There have been no material changes to the internal controls of the Company for the three month period ended September 30, 2012.