

Management's Discussion and Analysis**For the year ended June 30, 2010****Revised for Related Party Transaction disclosure****1. Date – October 18, 2010**

The following discussion and analysis ("MD&A") is a review of operations, current financial position and outlook for Star Navigation Systems Group Ltd. (the "Company" or "Star") and should be read in conjunction with the audited financial statements for the year ended June 30, 2010 and the audited financial statements for the year ended June 30, 2009. Results are presented for the twelve month period ended June 30, 2010. Amounts are reported in Canadian dollars based upon the financial statements prepared in accordance with Canadian generally accepted accounting principles.

Certain information in this MD&A or incorporated by reference, and in other public announcements by the Company is forward-looking and is subject to important risks and uncertainties. Words such as "may", "will", "believe", "expect", "anticipate", "estimate" and similar expressions identify forward-looking statements. Forward-looking information includes information concerning the Company's future financial performance, business strategy, plans, goals and objectives. Forward-looking statements are necessarily based upon estimates and assumptions considered reasonable by management but which are subject to business, economic and competitive uncertainties. Results could differ materially from those projected in forward-looking statements. Due to the Company's previous focus on directing early sales and marketing efforts on the Middle East and developing countries, the Company is potentially subject to risks involving political unrest, cultural differences, differing legal systems and business practices, and the significant added expense of travel and accommodation for Company personnel required to be onsite for sales, testing and installation duties. The Company endeavours to mitigate these risks as much as possible through the judicious use of secure financial instruments, experienced local sales agents and coordinated travel arrangements. The Company has now adjusted its focus to spread its efforts between North America and Europe, as well the Middle East, South Asia and Australasia.

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; 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. The Company updates forward-looking statements should circumstances or management's assumptions, expectations or estimates change.

Readers are cautioned that forward-looking statements are not guarantees of future performance.

Further information relating to Star Navigation Systems Group Ltd. is available on SEDAR at www.sedar.com.

2. General Development of the Business

History

Founded in Toronto in May 2000 and listed on the TSX-Venture Exchange on August 29, 2002 under the symbol 'SNA', Star Navigation Systems Group Ltd. ("Star Navigation" or the "Company") is a late development stage company that 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. The Company's head office is in Toronto, Ontario.

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 year ended June 30, 2010 and for the years ended June 30, 2009 and 2008.

	Year ended June 30, 2010	Year ended June 30, 2009	Year ended June 30, 2008
Total revenues	\$153,849	\$457,405	\$83,631
Net Loss	\$(3,363,082)	\$(2,978,175)	\$(3,414,690)
Total assets	\$2,517,752	\$301,420	\$652,607
Total long term liabilities	\$14,978	\$46,707	\$5,056
Cash dividends declared	\$Nil	\$Nil	\$Nil

The Company has experienced another loss in this fiscal year and has losses averaging \$(3,251,982) for the last three years. Factors that have contributed to these losses has been the inability of the Company to complete a sale for its ISMS unit with major airlines. The Company continues to invest money in the development of its ISMS unit and raising market awareness for this product but has had no substantial revenues for the past 3 years. The Company's focus and attention has always been to close a sale with a major airline. However this process is long and arduous and has forced to the Company to rely on raising money through equity sales to fund the research and development that is needed to bring this project to fruition. As can be seen from the above table, total assets for the years ended 2009 and 2008 were minimal indicating that the Company's cash levels were quite low. Assets in 2010 have climbed to \$2.5m largely in part to the 3 private placements the Company completed throughout the year. This increase in cash has allowed the Company to accelerate marketing plans and push to finalize its first sale of the ISMS unit to a fixed-wing airline. The Company has almost no long-term debt and short-term debt has been reduced in the year by using a combination of the cash raised and completion of a common shares for debt swap. Although the private placements have caused an increase in the total number of issued and outstanding shares to just under 170 million at June 30, 2010, the increase in cash (enhanced again in September 2010 with another private placement of \$1.3m) has put the Company in a position to

fund its known expenditures for the next twelve (12) months while still retaining a positive cash balance should spending on research and development need to be increased.

Note: Star Navigati on was incorporated on February 9, 1993.

Management's Discussion and Analysis

This management discussion and analysis provides analysis of the Company's financial results for the twelve month period ended June 30, 2010 and June 30, 2009. The following information should be read in conjunction with the audited consolidated financial statements of the Company for the fiscal year ended June 30, 2010 and June 30, 2009 (and the notes thereto).

Overview and Overall Performance

The Company's financial condition improved substantially in the year ending June 30, 2010. The cash position of the Company was bolstered from almost nothing in 2009 to over \$2m in 2010. This has allowed the Company to reduce its overall debt by \$682,000 from 2009 and continue to fund the research and development necessary for its ISMS unit. Assets are up by approximately \$2.2m over 2009 as a result. Results of operations continue to show significant losses as the Company endeavours to generate meaningful revenues to offset the R&D costs it incurs as well as the costs of marketing its product.

The Company is committed to completing its new ISMS G2 SSU unit and now has sufficient cash reserves to do this. The Company cannot forecast the future costs of moving its ISMS program to the next level until the Company secures a major contract with a fixed-wing airline. To this end the Company also made a major advance towards securing its first fixed-wing sale which should occur by the end of January 2011. The Company entered into an agreement with an airline to install the ISMS on one of the airline's Boeing 737-200/300 aircraft, on a performance evaluation and configuration basis. The evaluation period will last for 90 days and will commence as soon as the Operational approval is issued. The Agreement provides that upon successful completion of the performance evaluation, the airline will purchase the installed unit and purchase a further eleven ISMS systems for the balance of its fleet. This event will assist the Company to successfully market its ISMS unit to other airlines and should have a major impact on its results of operations in 2011.

The Company remains in the late development stage, without significant revenues at this time. Revenues are gradually increasing, and the Company has focused its efforts on the marketing, promotion and sale of its In-Flight Safety Monitoring System ("STAR-ISMS™"). STAR-ISMS™ is fully developed, and the Company continues to refine the utility of the data provided by the System. Development of the next generation Star Server Unit ("SSU") continues and the enhanced product is expected to be available by late 2010.

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 fully developed and are being marketed and sold. The Company is pleased by the

number of repeat orders received, given the challenging conditions faced by many customers. Given the expenses inherent in the marketing and sale of the STAR-ISMS™ product to potential customers in countries outside North America, the Company continues to expand its focus to include local Canadian and US prospects.

The Company continues its efforts to conclude existing sales initiatives with customers in Pakistan and India, and to support its sales agents in the Middle East and Australasia and now in North America. Discussions with appropriate governmental authorities in India concerning the granting of the Aeromobile license required to use the STAR-ISMS™ in Indian airspace are ongoing. Concurrent discussions with airline operators based in India are also taking place.

While recent funding through private placements has enhanced the Company's financial situation, strict hiring protocols and other cost cutting measures remain in place pending increased revenues. The Company is expanding the size of its IT Support Group, as well as adding to the Sales and Marketing Department. Attendance at promotional events such as Air shows continues to be closely assessed in terms of value for investment and potential networking and relationship building opportunities. In this regard, during the year the Company attended airshows in Dubai, Berlin and Farnborough.

Establishment of the Company's U.S. head office in Atlanta, Georgia took place in September, 2010. The Company is exploring several initiatives in the United States and it is hoped that a U.S. presence will facilitate those efforts. Current new initiatives being considered include the establishment of a Ground Monitoring Station to service the U.S. market, applications of the STAR-ISMS™ to the military sector and a more focused approach to brand awareness in the U.S.

Discussions with Astrium Limited in Europe with respect to the Technical Partnership Agreement and future cooperation continue to progress.

Operational Milestones

During the period ended June 30, 2010, the Company has made the following progress towards achieving its objectives:

- The Company announced on April 6, 2010 the signing of a Technical Partnership Agreement (TPA) with Astrium Limited a wholly owned subsidiary of EADS, to enhance and implement the patented In-flight Safety Monitoring System (STAR-ISMS™). The Agreement proposes to maximize the expertise and complementary capabilities that both teams provide, to build a stronger infrastructure, and increase value to the operator and other industry stakeholders. Star would supply airborne systems and installations, customized and comprehensive independent data processing and analysis as well as intelligent monitoring facilities of the aircraft systems. Astrium would supply satellite communication systems expertise, networking facilities, and lead marketing and sales activities. Further proposed enhancements involve Astrium's data tracking research and development activities. This agreement is part of a continuing process which, if successfully completed, will allow the Company and Astrium to work together to develop new business opportunities in the area of aircraft critical data collection and transmission systems and service.

- Continue with performance/design and platform upgrades to GSS. As part of its commitment to continuous improvement, STAR is currently upgrading its Ground Station platform to better position it for the expected growth in 2011. The new platform will enhance the reliability and performance of the current infrastructure.
- Development of the Company's Second Generation (G2) SSU is almost complete. Testing of the prototype is currently underway and commercial rollout is expected to take place (DFS).
- The Company continues to work with Pakistan International Airlines Corporation ("PIA") and has gained valuable in-flight experience with the STAR-ISMS™ system through daily operational flights aboard one of PIA's A-310 aircraft. The upgraded model of the First Generation SSU is currently aboard the PIA A-310 and is meeting all design expectations. Star's representatives in Pakistan continue to maintain close contact with PIA officials.
- In China, working discussions continue with respect to the COMAC 919 Big Commercial Aircraft project.
- In accordance with the Company's equity funding plans, funding activities were successfully concluded during the year, with gross proceeds of Private Placements totaling approximately \$3.2 M. The Company is well situated on a go forward basis with respect to its currently budgeted planning.

Outlook

Star's Management looks to achieve the following for the year ahead:

- ? Formalize the relationship with Astrium Limited through the negotiation and execution of a formal mechanism under which Star and Astrium can develop new business opportunities in the field of aircraft critical data collection, analysis and transmission.
- Continue discussions with respect to Original Equipment Manufacturer ("OEM") partnerships.
- Enter into production of the G2 SSU.
- Continue to work closely with the Director General Civil Aviation, the Ministry of Communications and individual airline operators in India with respect to both the Aeromobile License issue, and to ensuring that the features and benefits of the Company's STAR-ISMS™ technology are effectively presented to the appropriate parties. We await the decision of the Indian authorities.
- Successfully complete major sales initiatives currently pending in the Middle East, Australia and North America.
- Manage additional funding opportunities and aggressively monitor operating and administrative expenses.

- Continue to work closely with Pakistan International Airlines in order to refine the utility and scope of the STAR-ISMS™ during the current real time demonstration. The ability of the Company's Engineering and Software departments to analyze and assess data from an aircraft in actual flight is a valuable resource. Ultimately, the objective remains a purchase order from PIA.
- Continue to work on the COMAC 919 project in China. We have been informed that COMAC is still going through the selection process and that they have not yet decided/confirmed the second level systems. This is a very large scale project and there have been some scheduling extensions. There has been some indication that second level systems will be decided by the end of the year.
- Continue with performance/design and platform upgrades to GSS. As part of its commitment to continuous improvement, STAR is currently upgrading its Ground Station platform to better position it for the expected growth in 2011. The new platform will enhance the reliability and performance of the current infrastructure.
- Expand revenue stream from existing STAR-ISMS™ Lite, STAR-ISMS™ Ultra Lite and Terrestrial Monitoring products through effective sales, installation and world-wide marketing.
- Expand research and development with respect to increased functionality of the STAR-ISMS™ for additional applications. STAR is committed to the longevity and improvement of the STAR-ISMS™ product / service and will continue to focus significant effort in Research and Development. Pursuit of improved reliability and new capabilities, is paramount to STAR's long term success.

The Company's focus continues to be exclusively on the commercialization and refinement of our product and on the furthering of the sales and marketing of our flagship product – STAR-ISMS™ - the In Flight Safety Monitoring System.

Summary of Quarterly Results

The following table sets out selected unaudited financial information, presented in Canadian dollars and prepared in accordance with generally accepted accounting principles in Canada, for each of the last eight quarters ended June 30, 2010. The information contained herein is drawn from interim financial statements of the Company for each of the aforementioned eight quarters.

(Expressed in \$)

Three months	2010	2010	2009	2009
Period Ending	June 30	Mar 31	Dec 31	Sept 30
Revenue	32,661	75,660	22,377	23,151
Working Capital	(12,241)	(219,398)	(2,595,982)	(3,012,419)
Expenses	1,713,772	837,399	585,789	428,710

Net Loss	(1,554,221)	(821,402)	(581,621)	(405,828)
Net Loss (per Share)	(0.02)	(0.01)	(0.00)	(0.003)

	2009	2009	2008	2008
Period Ending	June 30	Mar 31	Dec 31	Sept 30
Revenue	84,108	196,503	59,172	117,622
Working Capital	(2,688,415)	(2,871,410)	(2,427,600)	(2,694,440)
Expenses	1,259,930	502,570	853,046	1,005,451
Net Loss	(782,802)	(490,706)	(816,838)	(887,829)
Net Loss (per Share)	(0.3)	(0.01)	(0.01)	(0.01)

Quarter-over-quarter fluctuations for fiscal 2010 and 2009 are primarily as follows;

- low and inconsistent revenue generation throughout the year
- working capital fluctuations in 2010 were influenced primarily by the completion of three private placements that were started in late Q2 and finished in Q3
- increases in Q4 expenses related to the assigned fair values of stock option grants and year end audit related adjustments.
- for fiscal 2009 working capital deficiency was consistent throughout the year as cash remained relatively low
- net loss for both years was \$3,363,082 and \$2,978,175 respectively

RESULTS OF OPERATIONS

Comparison of the twelve month periods ended June 30, 2010 and June 30, 2009

The following commentary compares the audited consolidated financial results for the twelve month periods ended June 30, 2010 and June 30, 2009.

Overview:

The Company generated a loss for the year-ended June 30, 2010 of \$3,363,082 vs. a loss of \$2,978,175 for the same period in 2009. The difference of \$384,907 is due mainly to the increase in stock-based compensation from 2009 to 2010. With the exception of Marketing and Promotional costs which increased by \$29,623 over 2009 the Company experienced decreases in all of its other major expense groups. General & administrative expenses dropped by \$82,717 over 2009, Cost of sales decreased \$251,170, research and development costs were down from \$707,340 in 2009 to \$488,558 in 2010 for a \$218,782 drop. Professional fees had a decrease of \$24,293.

The Company's sales dropped by \$303,556 in 2010 as the Company could not sustain the traction it had gained in 2009 with its sales cycle. The Company is making the aviation market increasingly aware of its product and this awareness paid off with its agreement it entered into subsequent to year-end to have its ISMS unit installed on a Boeing 737 aircraft for a developmental testing period and upon successful completion of the testing period it has committed to an order for 11 of the Company's ISMS units. The Company continues to make inroads into overseas markets and sales figures will hopefully increase as the world-wide economy stabilizes and airline companies increase their capital spending.

Revenues:

The Company's monthly monitoring fees charged to various customers has increased by \$18,407 in 2010 (2010 - \$90,617 vs. 2009 - \$72,210). One customer continues to add additional vehicle tracking devices which results in increased monthly fees paid to the Company. Hardware equipment sales suffered a large drop in 2010 over 2009 decreasing by \$263,801. The Company only recorded 6 units sold in 2010 of its vehicle tracking devices while in 2009 this figure was 36. The disparity in consistent sales highlights the need for the Company to continue to obtain more customers with an increased marketing campaign to try and smooth out this area of sales.

Cost of Sales:

The Company continues to promote its products into various markets around the world but has yet to have any major success. To that end it has effectively been selling its product at break-even margins in previous periods to entice customers to purchase its products and see the usefulness of it and purchase other units. Another reason for this is that the products being developed can have a very long sales cycle and require acceptance amongst several customers rather than just one. Because of this the Company's margins are very low, they dropped by 5% over 2009. In the future the Company will sell for higher margins once they have gained a major airline as a customer.

Research and Development:

Research and Development expenses have decreased in this year over 2009 by \$218,782. The decrease was driven by the decrease in R&D wages of \$217,835 (2010 - \$278,960 vs. 2009 - \$496,795). The reasons for the decrease were the Company reduced its R&D staff by 3 people now compared to the same period in 2009 and combined with the government sponsored work sharing program it was enrolled in until May 2010 (the work program saved it 40% of the wages it spent on staff prior to May 2009). The use of sub-contract expense decreased this year by a marginal \$9,900. While not a huge decrease it highlights the emphasis the Company has placed on watching its expenditures closely to preserve its cash. Correspondingly, travel has also decreased in this year by \$11,139 as the Company's research team has travelled less and focused more on completing the Company's new G2 SSU box. The Company's strict adherence to limit the use of sub-contractors by instituting a program of goals and

expectations for all sub-contractors so as to ensure the Company receives the right amount of value for the money it spends has paid off.

As part of its product improvement initiative, for the past 2.5 years Star has been working on enhancements to their fuel management, fleet management and savings modules. Working closely with aviation experts and experienced pilots, Star's R&D team has developed modules that offer improvements in efficiency, flexibility and performance measuring capabilities. Star will continue in its pursuit of functional and effective product development and improvement.

General and Administrative:

General and administrative ("G&A") expenses experienced a decrease of \$82,717 this year over 2009. Of the 20+ expense categories that make up the G&A category 55% of them saw decreases over 2009. Fees paid to Board members decreased by \$38,000 over 2009 as the Company had 3 directors resign (2 in late fiscal 2009 and another in February 2010). Filing fees paid decreased by \$20,755 in this year as the fees pertaining to the private placements completed in November, December and January were offset against share capital as share issuance costs. In the same three month period of 2009 only the sustaining fee was incurred that was over and above the normal monthly filing fees paid. Rent expense has increased in this period by \$13,300 over 2009 due to the Company being assessed an increase in its common area maintenance ("CAM") costs by its landlord in 2010. Consulting costs and Insurance had the biggest decreases in 2010 as consulting costs decreased by \$50,763 over 2009 and Insurance decreased by 57,669. The Company has cut back on the number of consultants used choosing to use just two consultants to help keep its sales strategy focused and to gain access to additional markets. Insurance dropped as the group insurance portion of insurance expense decrease due to the reduction in the number of employees and also further decreased when the Company was enrolled in the work sharing program for its employees which saw it save 40% of its wage costs. This also reduced the health insurance premiums it paid. G&A wages increased in the year by \$59,611 over 2009 as the self-imposed cut in salary for the Company CEO was reinstated. This resulted in an increase of \$59,000. Office expense also increased over 2009 by \$46,000. The Company is committed to monitoring all expenditures and has implemented a series of procedures that ensures that future expenditures are sourced out with more than one vendor and discounts are sought at all times. This will allow the Company to continue to monitor effectively its cash balance and instill a sense of conservatism with spending amongst its staff.

Marketing and Promotion:

Marketing and Promotion related costs have increased by \$29,623 in this year from \$408,504 in 2009 up to \$438,127 in 2010. This increase was primarily due to increases in travel and advertising expense. The Company has cautiously started to broaden its marketing initiatives overseas and in the United States which has resulted in increased advertising costs of \$24,257 in 2010. Travel costs have and will continue to increase (2010 - \$111,599 vs 2009 - \$79,290) as the Company continues to get its message out to investors across the country and south of the border. As well the Company has just opened up a satellite office in Atlanta, Georgia that it hopes will allow it to take advantage of the large aviation presence there. This will take time and patience but has already resulted in greater investor recognition of the Company leading to increased trading volumes of its stock on almost a daily basis.

Professional Fees:

Professional fees have decreased by \$24,293 from 2009. The decrease was led by a drop in legal fees of \$51,000 which resulted from the Company's negotiation of a reduced fee charged by two of its U.S. legal firms. Accounting fees dropped by \$1,950 over 2009 while audit fees went up by \$28,656 in the year.

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. The designation of optionees, amount and vesting provisions of awards 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 are measured at the fair value of the consideration received or the fair value of the equity instruments issued or liabilities incurred, whichever is more reliably measurable. Stock-based compensation is charged to operations over the vesting period and the offset is credited to contributed surplus. Consideration received upon the exercise of stock options is credited to share capital and the related contributed surplus is transferred to share capital.

During 2010 stock-based compensation amounted to \$1,127,650 vs. \$590,966. The Company issued 10,200,000 options in 2010 with exercise prices ranging from \$0.17-\$0.32.

Amortization

Amortization costs were \$37,097 for the year ended June 30, 2010, compared to \$51,563 for June 30, 2009. The decrease in amortization results from an asset base that is nearing the end of its useful life. The Company did expend money on improving the offices in Toronto and production equipment in Q3 and Q4. The total amount of equipment and license additions in the year totaled \$227,527. As a result, amortization for leasehold improvements increased in Q4 and will have more of an impact in 2011. Production equipment will be amortized once it has been fully completed.

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 June 30, 2010 the Company had \$557,858 vs.

2009 – \$61,331 of cash and cash equivalents in US dollars which resulted in the gain on foreign exchange in the year.

Inventory Write-down

The Company has inventory that consists of third party supplied hardware for the ISMS units and is recorded at the lower of cost and net realizable value where cost is determined on a specific identification basis.

The Company assesses its inventory on a regular basis. The write-down of inventory is comprised of the impairments recorded against inventory. The Company records a valuation write-down of inventory by comparing inventory cost to its net realizable value. This process requires the use of estimates and assumptions related to future market demand, costs and prices. The Company determined that as of June 30, 2010, the net realizable value of its remaining inventory was nil. This resulted in a write-down of \$96,195 in 2010 whereas inventory was written down by \$161,094 in 2009.

Liquidity and Capital Resources

The Company had cash and cash equivalents of \$2,022,926 at June 30, 2010 vs. a cash balance of \$7,232 in 2009. The increased cash balance is the result of 3 private placements closed in November and December of 2009 and January 2010. The Company had a working capital deficiency of \$12,241 at June 30, 2010 compared to a deficiency of \$2,688,415 as at June 30, 2009. The Company now has sufficient cash to cover its known expenditures for the next 12 months. Due to the uncertain nature of its ability to close sales with major airlines the Company cannot project with certainty what level of cash commitment it may face in the future. That being said, the Company continues to seek additional financing should it sign a major deal and to that end it has engaged in discussions with the Export Development Corp. to help finance the costs of should it sign a significant deal in the future. The Company has also had talks with its major supplier of the ISMS unit to see if it can arrange terms that would allow the Company to purchase the unit and defer a substantial portion of the payment until it is paid by the Customer. The Company has a very minor working capital deficiency that will be remedied after the year-end when it completes the final phase of the Shares for debt swap it started in May 2010. One of the participants in that swap is the CEO of the Company whose participation is subject to approval by the dis-interested shareholders of the Company. Once complete this will eliminate a further \$520,000 of short-term debt and coupled with the private placement that is just completed (see Subsequent Events) for \$1.3m then this deficiency will be erased. The Company continues to keep its accounts payables current and does not suffer from any defaults on its lease commitments and since it does not have any significant long-term debt there are no breaches of any loan covenants.

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 is subject to prevailing market conditions at that time. There can be no assurance that Management will be successful in raising the necessary capital required to continue the project but it has taken the necessary steps to address this concern.

Off Balance Sheet Arrangements

As at June 30, 2010, 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 Preferred Shares	615,000
Common Shares (i,ii,iii,iv)	169,520,906
Share Purchase Warrants	54,676,446 (prices ranging from \$0.20 cents to \$0.50)
Stock Options	16,498,000 (Exercise prices ranging from \$0.10 to \$0.32 with expiry dates up to March 31, 2015 and various graded vesting provisions).

(i) On November 10, 2009 Star completed a non-brokered private placement of 10,776,666 units (the "Units") of the Company at an issue price of \$0.06 per Unit for gross proceeds totaling \$646,600. Each Unit consists of one common share and one common share purchase warrant (a "Warrant"). Each Warrant entitles the holder to purchase one common share of the Company (a "Warrant Share") at a price of \$0.20 per Warrant Share for a term of 24 months from the closing date. Finder's fees in the amount of \$62,760 consisting of 1,045,999 common shares were paid in connection with this private placement.

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

(iii) On January 12, 2010 the Company completed a non-brokered private placement of 19,948,666 units (the "Units") of the Company at an issue price of \$0.12 per Unit for gross proceeds totaling \$2,393,840. Each Unit consists of one common share and one common share purchase warrant (a "Warrant"). Each Warrant entitles the holder to purchase one common share of the Company (a "Warrant Share") at a price of \$0.30 per Warrant Share for a term of 24 months from the closing date. Finder's fees in the amount of \$231,600 consisting of 1,930,000 Units were paid in connection with this private placement. 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.

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

Critical Accounting Estimates

For information regarding critical accounting estimates used by the Company, please see Note 3, Significant Accounting Policies of the audited financial statements of the Company for the year-ended June 30, 2010.

Significant Accounting Policies

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles 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, 2010, except for the change in accounting policies described in Note 2. These consolidated financial statements should be read in conjunction with those audited consolidated financial statements.

Recent Accounting Pronouncements Issued and Not Yet Applied

- (a) The CICA recently introduced Handbook Section 1582 – Business Combinations to replace Handbook Section 1581 – Business Combinations. The new standard will become effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The Company is currently in the process of evaluating the potential impact of this standard on its financial statements.
- (b) The CICA recently introduced Handbook Section 1601 – Consolidated Financial Statements and Section 1602 – Non-Controlling Interests, which will replace Handbook Section 1600 – Consolidated Financial Statements establishing a new section for accounting for a non-controlling interest in a subsidiary. These new sections apply to interim and annual consolidated statements for years beginning on or after January 1, 2011. The Company is currently in the process of evaluating the potential impact of these standards on its financial statements.

(c) In 2006, the Canadian Accounting Standards Board (" AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian public companies. The AcSB strategic plan outlines the convergence of Canadian GAAP and IFRS over an expected five year transitional period. In February, 2008, the AcSB announced that January 1, 2011, is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP, affecting interim and annual financial statements relating to fiscal years after this date. These new standards will be applicable as of January 1, 2011. The Company has a June 30 year end, and accordingly would need to prepare annual and interim financial statements relating to fiscal year beginning on July 1, 2011 and ending on June 30, 2012, in accordance with IFRS. This in turn will require IFRS comparatives for the fiscal year beginning on July 1, 2010 and ending on June 30, 2011. As such, July 1, 2010 is the effective date of transition for the Company. For 2010-11, information will have to be gathered in accordance with both existing Canadian GAAP and IFRS.

In summary, financial statements prepared using IFRS will be required for the first quarter of 2011-12 and will include 2010-11 comparative IFRS information, and the July 1, 2010 balance sheet.

The Company has formally established a transition plan and project implementation team. As an update to our previously filed annual and quarterly MD&A, management engaged an external consultant to undertake a preliminary review of the impact of IFRS on the Company's financial statements.

The objective of this review was to highlight, initially, all potential differences that are significant to the Company. The Company has substantively completed the detailed diagnostic plan which included identifying significant accounting policy differences and their related areas of impact in terms of systems, procedures and financial statements. Differences between IFRS and Canadian generally accepted accounting principles (GAAP), in addition to those referenced below, may continue to be identified based on further detailed analysis by the Company and other changes to IFRS prior to the Companies conversion to IFRS in 2011-12. The Company will continue to review all proposed and continuing projects of the International Accounting Standards Board to determine their impact and will continue to invest in training and resources throughout the transition period to facilitate a timely conversion.

Set out below are some of the key areas which indicate accounting differences, and where changes in accounting policies are expected that may materially impact the Company's consolidated financial statements. The list and comments should not be regarded as a complete list of changes that will result from a transition to IFRS. It is intended to highlight the more significant areas we have identified to date. Analysis of changes is still in process and not all decisions have been finalized where choices of accounting policies are available.

Accounting Policy Impact and Decisions

Intangible assets

IFRS 1 permits a Company to revalue intangible assets at their fair value as at the date of transition to IFRS. Such intangible assets would need to meet the recognition criteria (including reliable measurement of original cost); and the criteria for revaluation (including the existence of an active market). The Company is currently evaluating this option.

Business combinations

IFRS 1 provides an exemption that allows Companies transitioning to IFRS to not restate business combinations entered into prior to the date of transition. The Company is currently evaluating this option.

Share-based payments

IFRS 1 provides an exemption that allows Companies not to apply IFRS 2 Share-based Payment to options granted before November 2002, as well as to options granted after November 2002, but vested prior to transition. The Company is currently evaluating this option.

Equipment

In view of the component accounting that is strictly applied under IFRS, the Company will need to ascertain if items of property, plant and equipment would need further componentization. It may be likely that certain items of equipment could include components that need to be accounted and depreciated separately.

Impairment of Assets

Canadian GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists, and then measuring impairment by comparing asset carrying values to their fair value (which is calculated using discounted cash flows). IAS 36 Impairment of Assets (IAS 36) uses a one-step approach for testing and measuring impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted cash flows). This may potentially result in write-downs where the carrying value of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis. This difference could lead to income statement and earnings volatility in future periods. The Company is currently assessing the implications of the difference in the impairment approach.

Revenue recognition

In reviewing IAS 18 Revenue, the Company has determined that certain changes will be made in the manner in which it would recognize revenue in arrangements that have multiple deliverables, going forward. In accordance with Canadian GAAP, revenue is recognized for all delivered elements in an arrangement when there is objective and reliable evidence of fair value for the undelivered elements (commonly referred to as the residual method). Under the residual method, the amount of consideration allocated to the delivered elements equals the total arrangement consideration less the fair value of the undelivered item. However, in accordance with IFRS, revenue is allocated and recognized for each separately identifiable component in a multiple deliverable arrangement. The residual method is not permitted. As a result, for certain arrangements, the amount and timing of revenue recorded for each identifiable component may differ under IFRS.

Provisions

The Company is currently assessing the requirements of IAS 37, "Provisions, Contingent Liabilities and Contingent Assets", to determine whether all its provisions meet the "probable" recognition criteria under IFRS, and whether any additional provisions are required.

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

Related Party Transactions

The Company has accrued and carries significant balance on its financial statements of amounts due to related parties. The amounts represent compensation accrued with respect to salary compensation for its Officers, monthly compensation accrued for its directors, advisory board members and committee chairpersons that have accumulated over the past several years. The Company's Board of Directors are compensated at the

rate of \$2,000 per month for performing duties such as providing guidance to management in areas such as budgeting, new sales contracts or joint ventures anticipated and any other issue that management deems necessary. Advisory Board members are business people the Company with expertise in the Aviation industry who help the Company attain access to the decision makers of major airlines to help promote Star's STAR-ISMS™. They are remunerated at the rate of \$15,000 per year. Committee Chairperson's are selected from amongst the Directors of the Company to head the Audit, Compensation and Corporate Governance committee's. Chairpersons' are remunerated at the rate of \$2,000 per month. All of the above amounts are accrued in the financial statements of the Company. The terms for repayment of the amounts owing to the various Board, Advisory and Committee members are restricted.

These amounts can only be redeemed when individuals wish to exercise options that have been granted to them by the Company or to participate in a private placement being done by the Company.

The related party transactions disclosed above, are non-interest bearing and unsecured, in the normal course of business and are recorded at the exchange amount, which is the amount agreed to between the related parties.

At June 30, 2010, management estimates that there is the potential for the amounts due to be paid in this fiscal year, and accordingly they have been classified as current liabilities.

The only fixed contractual obligations the Company has with related parties are the compensation contracts it has with the CEO, CTO and CFO.

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

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

The following amounts are due to Related Parties;

Due to Dale Sparks, Chief Technical Officer and member of the Board of Directors - \$92,576 (2009 - \$108,148). The above amount resulted from the accrual of salary. Due to Viraf Kapadia, Chief Executive Officer and Chairman of the Board of Directors - \$1,264,866 (2009 - \$1,144,858). This amount resulted from salary accrual for the CEO in prior years including certain years where as CEO he took no salary due to the economic limitations the Company was experiencing at the time. He also financed the Company at various times when the Company was experiencing funding shortfalls and he deferred repayment until the Company attained stability. Due to a corporation formally controlled by an officer who is also a director of the Company - \$28,090 (2009 - \$160,590). Additionally, certain loans amounting to \$171,234, were advanced by a former director and an individual related to the CEO to the Company during prior years. These balances amounted to \$171,234 as at June 30, 2009, and were settled during 2010.

Included on the statement of profit and loss for the year ended June 30, 2010 in general and administrative expenses is \$575,108 (2009 - \$594,800) in fees paid and accrued to directors and officers of the Company. Rent expense of \$133,300 (2009 - \$120,000) was paid to a corporation formerly controlled by an officer who is also a director of the Company. \$269,808 (2009 - \$210,800) was paid to V. Kapadia, the Company CEO.

Board of Directors fees of \$86,000 (2009 - \$124,000), were accrued to S.Saulnier, I. Alhamer, R. Riedel and C.Wyburn. Advisory Board fees of \$62,000 (2009 - \$92,000) were accrued to P.Jeannot, C.Simpson, JL Larmor, K.Ledeboer and S.Gough-Cooper. Committee Chairperson fees of \$24,000 (2009 - \$48,000) were accrued to Charles Wyburn, D.Tsabouchi and B.Soave during the year. Included in research and development is \$138,525 (2009 - \$122,966) in fees paid and accrued to D. Sparks, the Chief Technical Officer and a Director of the Company. Professional fees of \$54,857 (2009 - 10,500) were paid to R. Koroll, Chief Financial Officer of the Company. Also included in accounts payable of the Company is approximately \$5,400 (2009 - \$32,449) owing to V. Kapadia a director and officer of the Company.

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

Financial Instruments and Other Instruments

The Company's financial instruments consist of cash, accounts receivable and accounts payable and accrued liabilities.

Management does not believe these financial instruments expose the Company to any significant interest, currency or credit risks arising from these financial instruments. The fair market values of cash and cash equivalents, loan receivable, accounts payables and accrued liabilities approximate their carrying values.

Risk Factors and Risk Management

Although Management is working diligently towards generating revenue, improving cost containment and achieving profitable operations, Star Navigation 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 ability to secure further equity or debt financing and/or funding.

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 dependant 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 sales activity and required research and development activities. Both 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 unallocated funds to handle most contingencies.

The Company's clients for the flagship STAR-ISMS™ system are mainly commercial airlines. 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, be they Engineering, Finance, Operations or the Executive. A large percentage of the Company's sales initiatives to date have involved non- North American customers, with the attendant travel and time requirements. Amongst other initiatives, the Company is increasing its North American sales presence, refining its sales process, and making greater use of video conferencing.

The Company is in the latter stages of the development and testing of its Second Generation Star Server Unit ("G2 SSU"). 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. 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 Supplementary Type Certificates, required whenever the Company is installing equipment aboard an aircraft. While Transport Canada 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.

Due to the Company's intentional focus on directing early sales and marketing efforts on the Middle East and developing countries, the Company is potentially subject to risks involving political unrest, cultural differences, differing legal systems and business practices, and the significant added expense of travel and accommodation for Company personnel required to be onsite for sales, testing and installation duties.

The Company endeavours to mitigate these risks as much as possible through the judicious use of secure financial instruments, experienced local sales agents and coordinated travel arrangements. Increasing recent focus by the Company on North American and European opportunities also serves to mitigate some of these risks.

Subsequent Events

1) On September 16, 2010, the Company announced that it had entered into an agreement with Shaheen Air International ("Shaheen") to install the STAR-ISMS™ system on one of Shaheen's Boeing 737-200/300 aircraft, on a performance evaluation and configuration basis. The evaluation period is to last for 90 days and will commence as soon as the Operational STC is issued.

The Agreement provides that, upon successful completion of the performance evaluation, Shaheen will purchase the installed unit and a further eleven (11) STAR-ISMS™ systems for the balance of its fleet. Based on list prices, if completed, the value of the order over the 60 month contract is expected to be approximately USD 2,400,000, including ongoing airtime charges.

2) On September 14, 2010, Star Navigation Systems Group Ltd. announced that it had completed a non-brokered private placement of 10,875,000 units (the “Units”) of the Company at an issue price of \$0.12 per Unit for gross proceeds totaling \$1,305,000. Each Unit consists of one common share and one common share purchase warrant (a “Warrant”). Each Warrant entitles the holder to purchase one common share of the Company (a “Warrant Share”) at a price of \$0.20 per Warrant Share for a term of 24 months from the closing date.

Finder's fees in the amount of \$115,400 in cash will be paid in connection with this private placement.

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

In accordance with National Instrument (“NI”) 52-109 (Certification of Disclosure in Issuer’s Annual and Interim Filings), the Company’s Chief Executive Officer (“CEO”) and Chief Financial Officer (“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 and internal control over financial reporting, as defined in NI 52-109.

As part of our corporate governance practices, internal controls over financial reporting (“ICFR”) and disclosure controls and procedures (“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 with Canadian GAAP.

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 Navigation Systems Group Ltd. 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 in the year ended June 30, 2010.