

**Star Navigation Systems Group Ltd.**  
**Management's Discussion and Analysis**  
**For the years ended June 30, 2014 and June 30, 2013**

**Date – October 28, 2014**

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 years ended June 30, 2014 and June 30, 2013 and should be read in conjunction with the consolidated audited financial statements for the years ended June 30, 2014 and June 30, 2013. 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 October 28, 2014.

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 statements may be found in the Overview of Products, and General Development of the Business, and Results of Operations, Overview sections of this MD&A. 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, such as is still being experienced in Egypt, 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 AlMasria Universal Airlines ("Almasria"), which is currently in the Supplemental Type Certificate ("STC") application process. As part of its internal reorganization, the Company now has the capacity to complete 100% of the design and data packages required for STC approval in-house. However, the Company remains subject to local regulatory authorities and to the requirements of Transport Canada. As stated previously with respect to the sale to Midwest (Egypt) Airlines, the Company has been advised by MidWest that they have made changes to their fleet and the aircraft originally targeted for installation is no longer available. MidWest advises that it is currently operating one aircraft that is not suitable for STAR-A.D.S.™ installation and that it is in negotiations with respect to two other aircraft. Midwest will keep the Company advised of its progress and as to when appropriate aircraft become available. All other terms and conditions of the contract remain in force. In addition, other potential sales opportunities in Egypt have been impaired due to the current political unrest.

The Company's efforts are now primarily focused on North America, S.E. Asia, the Middle East, and Europe. Now that the Company has reassumed full control of the sales and marketing function from Paradigm, it continues to refine and expand the manner in which the STAR-A.D.S.™ system is marketed and sold.

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, sales, research and development and financing initiatives and whether such initiatives will yield the expected benefits. In addition, the ability of the STAR-A.D.S.™ sales and marketing team to successfully promote and sell the service is critical. 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](http://www.sedar.com).

### **General Development of the Business**

Star Navigation Systems Group Ltd. commenced its operations in May 2000 and was listed on the TSX Venture Exchange (the "Exchange") on August 29, 2002, under the symbol 'SNA'. Star Navigation Systems Group Ltd. is a leading-edge Canadian publically owned technology company. It focuses on providing aerospace solutions—hardware and software platforms—that assist aviation operators worldwide. Headquartered in Toronto, Ontario, Star has developed the STAR-ISMS® In-Flight Safety Monitoring System, the heart of the STAR Airborne Data Service (ADS). It is the first system in the world that features in-flight data monitoring and diagnostics with real-time secure connections between the aircraft and the ground, using current technology and satellite transmissions.

The STAR-ISMS® System has been tested and certified for airworthiness by world transport authorities including the United States Federal Aviation Authority (FAA) and Transport Canada (TC). Star owns the worldwide license to this patented technology and is actively developing new applications for in-flight medical monitoring, environmental monitoring, and ground-based systems. Star's proprietary patented technology provides real-time data transmissions that enhance aviation safety, facilitates reducing fuel and maintenance costs, carbon footprint, while at the same time providing the opportunity to dramatically increase airline profits.

## Overview of Products

### Capability of the STAR-ISMS® G2 System

The STAR-A.D.S.™ will provide customer airlines/operators with a cost effective end to end solution for automated capture and delivery of an agreed information set, providing “fit and forget”, real-time monitoring of the aircraft performance and status, with instant and secure access to essential aircraft information from a PC based web connection. The STAR-A.D.S.™ delivers high value, streamlined operational information with minimum impact to customer’s processes and procedures, using a Graphical User Interface (“GUI”) with fast convenient visibility of information from any location, within minutes of the data being generated on the aircraft data bus anywhere in the world.

STAR-A.D.S.™ benefits include:

- 1) Quick access visibility of fuel burn and flight profile inefficiencies.
- 2) Real-time visibility of location and performance data.
- 3) Automated fault notification of essential systems data in the form of alerts.
- 4) Delivery of essential aircraft information direct to decision makers.
- 5) Greatly improved quality and consistency of aircraft information delivery.

STAR-A.D.S.™ offers the operator significant advantages over existing systems by providing:

- 1) Secure information delivery
- 2) Information formatting adjusted to suit the operator
- 3) Significant automation of the information delivery process
- 4) Ability to export to data analysis systems
- 5) A single contact and billing system
- 6) A software defined service to grow future value delivery to customers

STAR-A.D.S.™ information is delivered using three elements:

- 1) Airborne Element (“AE”) system installation
- 2) Data Management Centre (“DMC”)
- 3) Web-based Graphical User Interface

A low-impact, easy to fit aircraft installation kit that enables Iridium transmission of selected data is provided for operator installation. The equipment installation uses a simple STC, with usually 120 Man Hours required for the retrofit.

Discussions with the customer are required to establish and approve the extent of information capture, extraction, transmission and display and to customize the system to the customers’ individual needs.

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](http://www.star-navigation.com) for more information.

## **Overview of Products (Cont'd)**

The Company continues its efforts to conclude existing sales initiatives with customers in, ASIA, India, Europe, The Middle East and North America.

There has been some progress in discussions with appropriate 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, negotiations which were underway with several airlines in India have been suspended, although the MH370 disaster may affect the situation. Star's Asia Pacific distributor remains optimistic that the situation will be resolved to Star's satisfaction.

## **Operational Milestones**

During the years ended June 30, 2014 and 2013, the Company has made the following progress towards achieving its objectives:

- The Company announced a sale of the STAR-A.D.S.™ system to Almasria Universal Airlines of Egypt.
- The Company continued its drive to forge alliances with manufacturers of complimentary products with a view to leveraging the synergies available, add to its product line and develop end to end solutions for the airline industry. Testing in various areas continues and the results are encouraging. The Company has augmented its research and development, engineering and software capabilities by increasing its complement of Professional Engineers (P.Eng.) on staff to five.
- The Company signed a Cooperation Framework Agreement ("CFA") with a Chinese Avionics manufacturer, Chengdu Spaceon Technology Co. Ltd., ("Spaceon"). Spaceon is a well-recognized aerospace research and product development corporation in China, with expertise and experience in airborne avionics, in-flight controlling and data communications equipment and services.

The CFA prepares the way for a full Cooperation Agreement to be completed and signed shortly. That agreement will provide for the manufacturing, marketing and sale by Spaceon of Star's STAR-ISMS® Lite system in China, and for the joint research and development of new products.

- Star continues discussions with various entities in China regarding manufacturing, collaboration and strategic alliances due to continuing delays in the COMAC 919 project.

## Operational Milestones (Cont'd)

- Star has received confirmation that Transport Canada has granted it a Supplemental Type Certificate ("STC") with respect to the installation of its STAR-ISMS® system on the Airbus A320 aircraft. This STC is granted for the recently completed Second Generation ("G2") STAR-ISMS® system. It is a major milestone in the commercial development of the system. The G2 STAR-ISMS® system offers enhanced functionalities while being smaller, lighter, and even more cost effective to the end users. The Airbus A320 series is one of the bestselling jet airliners in aviation history selling more than 10,000 aircraft as of February 2014. Airbus A320 jets are now being utilized in most regions of the world by airlines operating in the short to medium haul flight segment. The necessary work for this STC was 100% done in-house at STAR and reviewed by a Transport Canada approved Designated Airworthiness Representatives ("DAR"). This is the latest addition to the STCs currently owned by the company, which include STC's for the Boeing B737 family of aircraft.
- Star has been successfully re-certified to the ISO 9001- 2010 / AS9100 Revision "C" Standard. AS9100 Rev. "C" is a widely adopted and standardized Quality Management System for the aerospace industry. Placed under the authority of the Society of Automotive Engineers and the European Association of Aerospace Industries, AS9100 incorporates ISO 9000 entirely, while adding additional requirements relating to quality, risk and safety. This ensures products have a consistently high level of quality, safety and reliability. Major aerospace manufacturers and suppliers world-wide require the certification as a precondition of doing business with them.
- The Company commenced the reorganization of its Sales & Marketing department by hiring a highly qualified aviation professional as VP, Global Sales in February 2014. He will co-ordinate and lead Star's sales department.
- Star attended and presented at several conferences in the course of the year including, IATA, ICAO, ITU and the EFTT Conference.
- The Company has completed the acquisition of the assets of Les technologies LUXELL Limited ("LUXELL"). (See Press Releases February 20 and April 1, 2014). This acquisition brings to Star new aerospace engineering capabilities, integrates and solidifies its supply chain, diversifies its product portfolio and grants immediate access to additional, complementary business and sales. These assets have been incorporated into the new STAR-MMI Division.

## Outlook

Star's Management looks towards achieving the following objectives over the balance of calendar 2014:

- To execute the commercialization of the STAR-A.D.S.™ develop new business opportunities in the field of aircraft critical data collection, analysis and transmission, and expand the opportunities offered by the products and services of the new STAR-MMI Division.

## Outlook (Cont'd)

- To further develop the capability of its ground station and data management services.
- Continue to work with Spaceon in China with respect to the manufacture and sale of the STAR-ISMS® Lite system and, potentially, the STAR-A.D.S.™ system.
- To continue to further develop and refine the military version of the STAR-ISMS® system.
- Continue to develop the product integration work now almost completed with International Communications Group, Inc. ("ICG").
- In conjunction with one of Stars strategic partners, further develop and refine the medical monitoring aspects of the STAR-ISMS®.
- Expand the Sales & Marketing presence of the Company at Airshows and Industry Conferences in a professional, efficient and rewarding manner.
- Continue R&D efforts to add functionality with respect to complete data download at the end of a flight. Continuing to update the functionality and utility of the STAR-ISMS® system in order to compete in a wider range of markets and to service more sophisticated requirements.
- Continue to closely monitor and defend our Intellectual Property and to challenge any infringement and take appropriate action.
- To take a leading position in the market through innovation and fast response to the changing requirements of our customer base.
- The Company has also just opened a sales office in Montreal in September 2014.
- Expansion of the revenue stream from existing STAR-A.D.S.™, STAR-ISMS®, STAR-ISMS® Lite, STAR-ISMS® Ultra Lite and Terrestrial Monitoring products through effective sales, installation and world-wide marketing. Expand the product line through internal research and development as well as through targeted alliances with manufacturers of complimentary aerospace products.

## Outlook (Cont'd)

- Diversification and expansion of its product line and solidification of its STAR-ISMS® production with the acquisition of the assets of Luxell Quebec Technologies Inc. ("LUXELL"). (See Press Releases February 20 and April 1, 2014). This acquisition (now "STAR-MMI") brings to Star new aerospace engineering capabilities, integrates and solidifies its supply chain, diversifies its product portfolio and grants immediate access to additional, complementary business and sales. LUXELL developed and produced customized Man Machine Interface ("MMI") products for large Fortune 500 aerospace and defense customers worldwide. It also assisted in the design and production of Star's Gen 2 on-board computer. Star's STAR-MMI Division supplies high performance mission critical flight deck, flat panel displays for defense and commercial aviation industries worldwide. Some of the Star MMI Division's current customers include;
  - Lockheed Martin – USA , • Jepico – Japan and • IRTS – France

## 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, 2014, 2013 and 2012.

	Year ended June 30, 2014	Year ended June 30, 2013	Year ended June 30, 2012
Total revenues	\$53,731	\$115,717	\$72,672
Net Loss	\$(3,426,997)	\$(2,919,007)	\$(3,059,143)
Total assets	\$2,332,595	\$1,403,867	\$1,189,360
Total liabilities	\$1,890,081	\$1,549,264	\$2,047,487
Cash dividends declared	\$Nil	\$Nil	\$Nil

The Company continues to experience losses as it moves toward full commercialization of its STAR-ISMS® product. The Company has sustained losses for the last 3 fiscal years. Those losses (2014, 2013 and 2012) are averaging \$3,135,049 per year.

The main factor 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 its feature product, the STAR-A.D.S.™, into the commercial market.

Although STAR-A.D.S.™ sales have just been realized subsequent to year-end (See Subsequent Events), the Company has taken other steps to increase sales:

1. Regained full direction and control over the Sales and Marketing function which had not been under its control as part of the Paradigm agreement (see Press Release Oct. 18/13).
2. Engaged a senior aviation sales and marketing professional to reorganize and manage the sales and marketing department.

## Annual Information (Cont'd)

3. Purchased the assets, patent technology and channel partner lists of Luxell. Luxell produced the STAR-ISMS® box and now Star has ensured that continuity. As well, Star has acquired the Man, Machine Interface (“MMI”) business that Luxell operated. Star, through its MMI Division, has increased its overall revenue with over \$520,000 USD in orders placed with its’ MMI division (See Subsequent Events).

The Company continues to be in a position whereby it will have to continue to raise money in the debt or equity markets until it completes a significant sale of the STAR-A.D.S.™ system or the MMI division can generate sufficient revenues to reduce the number of equity raises the Company needs to continue operations.

The Company has completed private placements in September 2012, May 2013 and October 2013 and April 2014 that collectively have raised \$5,668,000 over the past two years. The Company also pursues other methods of raising money and has completed two shares for debt conversions since 2010 to further reduce its outstanding liabilities.

The Company has minimal long-term debt at June 30, 2014. The Company recently entered into a \$157,000 leasing arrangement to update its computer infrastructure and ensure the necessary security that is expected by airline customers. The Company has now entered into an agreement to co-locate its computer infrastructure and backup systems at 151 Front St., which houses the technology systems of some of the largest companies in the world. This move will ensure that Star can provide future customers with the confidence that the data generated by Star’s system concerning their operations will be protected.

Star has also entered into an agreement with Troo Corporation to develop Star’s next generation GUI for its customers at a cost of \$240,000.

The Company will continue to sustain losses for the near future as it pushes towards full commercialization of the STAR-A.D.S.™ system and further expansion of its MMI division.

- The cash balance at June 30, 2014 has dropped to \$134,940 as compared to \$405,603 at June 30, 2013. The Company completed another private placement in April 2014.
- Assets have risen due to the acquisition of the assets of Luxell for \$1,250,000 paid in common shares of the Company as well as \$40,000 in assumed debt (See Note 7 of the Audited Consolidated Financial Statements).
- Accounts receivable are up over 2013 as orders have been completed by its’ MMI division and prepaid expenses fluctuate and are marginally up over 2013.
- Inventory has increased due to the Luxell asset acquisition. Star now has multiple units of its STAR-ISMS® in stock and ready for sale.
- Property and equipment has increased because of the Luxell asset acquisition (See Note 7 of the Audited Consolidated Financial Statements). There were additions to Development and Other asset additions in this year as well due to the Luxell acquisition.
- Accounts payable and accrued liabilities are up marginally from June 30, 2013.



## Annual Information (Cont'd)

- Amounts due to related parties have increased from June 30, 2013 due to the monthly accruals to certain of the Company directors as well as loans from the CEO and Chairman of the Board.
- The Company's share capital continues to rise in conjunction with each completed equity raise as well as the Luxell asset purchase. Common shares outstanding have gone up from 249,211,966 at June 30, 2013 to 317,692,892 at June 30, 2014.
- Results of operations continue to show losses. However, the Company has now moved from a "development stage" company to a "commercial" company with a fully viable product suite 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® G2 unit and the STAR-A.D.S.™ service.

## 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 \$)

<b>Period Ending</b>	<b>2014 June 30</b>	<b>2014 March 31</b>	<b>2013 December 31</b>	<b>2013 September 30</b>
Revenue	21,895	8,069	9,912	13,855
Working Capital/(Deficit)	(881,760)	(1,257,900)	(784,092)	(1,089,984)
Expenses	1,480,012	754,484	680,466	581,742
Net Loss	(1,458,104)	(705,496)	(695,510)	(567,887)
Net Loss (per Share)	(0.001)	(0.002)	(0.02)	(0.02)

  

<b>Period Ending</b>	<b>2013 June 30</b>	<b>2013 March 31</b>	<b>2012 December 31</b>	<b>2012 September 30</b>
Revenue	(28,764)	10,498	16,447	117,536
Working Capital/(Deficit)	(593,019)	(891,820)	(319,144)	179,639
Expenses	918,234	655,440	754,910	706,589
Net Loss	(946,998)	(644,942)	(738,463)	(588,604)
Net Loss (per Share)	(0.01)	(0.003)	(0.003)	(0.0028)

Quarter-over-quarter fluctuations for the last eight periods prior to June 30, 2014 are primarily as follows:

- Continued low revenue generation throughout these periods.
- Working capital continues to be in a deficit position that fluctuates with the Company's equity raises. The Company continues to spend money to get its product to market in the absence of any significant sales.
- Expenses per quarter for the last eight quarters have remained consistent.

## **RESULTS OF OPERATIONS**

### **Comparison of the years ended June 30, 2014 and June 30, 2013.**

The following commentary compares the audited consolidated financial results for the years ended June 30, 2014 and June 30, 2013.

#### **Overview:**

The Company sustained a loss of \$3,426,997 for the year-ended June 30, 2014 vs. \$2,919,007 for the year-ended June 30, 2013. The increased loss is due to many variances including, but not limited to, increases/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 also 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.

#### **Revenues:**

Revenues for the year ended June 30, 2014 have decreased by \$61,986 from June 30, 2013.

The decrease is a result of a lower number of STAR-ISMS® Lite customers and some existing customers flying less thereby resulting in lower fees being charged. As well, revenues from the Company's MMI division were minimal in the last quarter of the fiscal year.

The Company continues to generate airtime revenue from 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 during year ended June 30, 2014.

The Company has taken steps to increase sales in fiscal 2015 by signing contracts for its MMI products and reorganizing its STAR-ISMS® sales division.

### **Cost of Sales:**

Cost of Sales for the year ended June 30, 2014 decreased for the same reasons that resulted in the decline in sales revenue. The Company did not sell any of its STAR-ISMS® units in the current year. Cost of sales in the 2013 was higher because it contained the Air North pilot project costs which were higher than expected.

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.

### **Research and Development:**

	Years ended June 30		
	2014	2013	Variance
Total R&D expenses	<b>1,312,251</b>	881,724	430,527
Amortization expense	<b>362,116</b>	255,126	106,990
R&D Wages	<b>774,559</b>	551,646	222,913
Material costs	<b>27,321</b>	27,500	(179)
Research & development costs	<b>83,159</b>	25,138	58,021
STC costs	<b>40,479</b>	10,150	30,329
Travel costs	<b>24,617</b>	12,164	12,453

R&D expenses have increased by \$430,527 for the year ended June 30, 2014 over the same period of 2013.

There have been new asset additions to equipment and development and other assets in this period (See Note 5 and 6 of the Consolidated Financial Statements) which has resulted in increased amortization expense.

Salaries & Wages have remained the same from 2013. Salary increases which are reviewed and adjusted as necessary annually on January 1 of each year were offset by a decrease in staff. Star added more R&D staff but did not do this until the last quarter of 2014.

Research & Development costs were higher in 2014 due to costs incurred for its annual AS9100 recertification and some research costs spent furthering the ICG partnership.

STC costs rose in 2014 as Star acquired another STC and spent additional monies making the acquisition of STC's an internal job now instead of outsourcing this function.

Travel costs have gone up as the Company is making more presentations to airlines, which requires the assistance of the R&D staff.

**General and Administrative:**

	Years ended June 30,		
	2014	2013	Variance
Total G&A expenses	<b>1,385,180</b>	1,445,615	(60,435)
Board and Committee fees	<b>129,828</b>	150,192	(20,364)
Consultant costs	<b>69,692</b>	58,317	11,375
Insurance	<b>71,314</b>	78,724	(7,410)
Professional fees	<b>176,862</b>	213,923	(37,061)
Wages	<b>433,865</b>	536,745	(102,880)
Bank charges & interest	<b>62,209</b>	31,962	30,247
Other	<b>441,410</b>	375,752	65,658

G&A expenses have decreased by \$60,435 for the year ended June 30, 2014 from June 30, 2013.

Board and Committee fees have remained relatively consistent with 2013 with a small decrease. The Company now has 4 directors ( previously had 5 directors in 2013), three of which are non-executive board members.

Consulting costs include payments for services provided by an executive who is facilitating the growth of the MMI division. As well, the Company incurred costs in association with the hiring of its' new sales director.

Professional fees are down over 2013 due to a decrease in legal fees and auditing fees.

Wages have decreased in 2014 as the Company has not filled the position of COO which has been vacant since July 2013.

Interest charges have risen in 2014 as the Company now has an agreement with the CEO of the Company to accrue interest monthly at the rate of Business Prime Rate + 2% on an annual basis on the outstanding balance of monies owed to him.

Other expenses have increased in this quarter of 2014. The increases were minimal in amount and spread over several accounts.

Public Company costs have dropped in 2014 as the Company saved money on its AGM meeting and TSX-V fees have dropped.

Other expenses have increased by a combined \$52,658 over 2013. The increases were minimal in amount and spread throughout numerous accounts.

### **Marketing and Promotion:**

	Years ended June 30,		
	2014	2013	Variance
Total Marketing expenses	<b>569,354</b>	270,223	299,131
Investor relations	<b>154,573</b>	45,000	109,573
Travel costs	<b>105,290</b>	31,498	73,792
Salaries	<b>52,446</b>	-	52,446
Consultant costs	<b>221,363</b>	193,125	28,238
Other costs	<b>35,682</b>	600	35,082

For the year ended June 30, 2014, Marketing and Promotion ("M&P") costs have increased by \$299,131 over the same period of 2013.

The Company is putting more resources into selling its STAR-ISMS® product along with its MMI products in 2014. This has resulted in increased travel costs for the Company.

Consulting costs are slightly higher than in the same period of 2013. The Company has not engaged any new consultants in this period.

The Company hired a VP of Global Sales and Marketing in February 2014. This person will co-ordinate Star's sales efforts on a global basis. The Company did not have this position in 2013.

Travel costs increased significantly this year as the Company was actively engaged in setting up the distributorships in India and research cooperation agreement with ICG in Virginia, USA. The Company has focused on getting the STAR-A.D.S.™ project up and running more efficiently from a commercial position so as to speed up possible sales and to that end it has been funneling more resources to that. The Company has also increased the number of presentations to airlines of its STAR-A.D.S.™ system. Travel costs will continue to occur as the Company continues to push its message out to the industry at large and to prospective customers around the world.

Investor relations costs are up in 2014 as the Company has been actively reaching out to its investor base to show the progress the Company has made in this fiscal year. In 2013 Star did not have an IR firm for the whole fiscal year of 2013.

### **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 2011, the shareholders approved an increase in the number of shares that could be issued under the Plan to 35,000,000. To date, application for regulatory approval for that increase has not been made but is expected within the current quarter.

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 year ended June 30, 2014 stock-based compensation amounted to \$173,231 (June 30, 2013 - \$352,532).

### **Foreign Exchange Gain/Loss:**

Monetary assets and liabilities denominated in foreign currencies are translated at the yearend 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 the year-ended June 30, 2014 the Company held \$59,822 (June 30, 2013 - \$84,047) of cash and cash equivalents in US dollars.

### **Liquidity and Capital Resources**

The Company had a cash balance of \$134,940 at June 30, 2014 compared to a cash balance of \$405,603 at June 30, 2013.

The Company has completed two private placements in fiscal 2014, one in October 2013 for proceeds totaling \$900,000 and another one in April 2014 that raised \$1,677,596. The Company now has a working capital deficiency of \$881,760 at June 30, 2014 compared to a working capital deficiency of \$593,019 at June 30, 2013.

Management is continuing its efforts to secure additional funding for the Company's currently short and long-term obligations. The financing alternatives include debt and/or equity financings, asset sales and rights offerings to existing shareholders.

## Liquidity and Capital Resources (Cont'd)

While the Company is striving to achieve its financing plans, there is no assurance that future funding will be available on favourable terms to the Company, or at all. The Company is currently working on a private placement financing at this time.

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.

The Company's cash balance has always depended on the support of its shareholders and other forms of financing. That will continue to be the case for the foreseeable future until it reaches a breakeven position.

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.

## Off Balance Sheet Arrangements

As at June 30, 2014 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)	317,692,892
Share Purchase Warrants (ii)	141,793,716 (exercise prices ranging from \$0.12 cents to \$0.30)
Stock Options	14,797,900 (exercise prices ranging from \$0.06 to \$0.29 with expiry dates up to December 15, 2018 and various graded vesting provisions).

## Significant Accounting Policies

The audited 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, 2014.

## **Recent Accounting Pronouncements**

### Adopted during the year

IFRS 10 Consolidated Financial Statements (“IFRS 10”) 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. The Company has adopted IFRS 10 which had no material impact on the consolidated financial statements.

IFRS 12 Disclosure of Interests in Other Entities (“IFRS 12”) 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. The Company has adopted IFRS 12 which had no material impact on the consolidated financial statements.

IFRS 13 Fair Value Measurement (“IFRS 13”) was issued by the IASB in May 2011. IFRS 13 provides a consistent and less complex definition of fair value; it establishes a single source of guidance for determining fair value and introduces consistent requirements for disclosures related to fair value measurement. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. The standard is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company has adopted IFRS 13 which had no material impact on the 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 June 30, 2014 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.

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, 2018.



## **Accounting Estimates and Judgments**

The preparation of consolidated financial statements in compliance with IFRS requires the Company's management to make certain estimates and assumptions that they consider reasonable and realistic. Despite regular reviews of these estimates and assumptions, based in particular on past achievements or anticipations, facts and circumstances may lead to changes in these estimates and assumptions which could impact the reported amount of the Company's assets, liabilities, equity or earnings.

These estimates and assumptions notably relate to the amortization of and measurement of impairment of property and equipment and development and other assets, stock-based compensation, warrants, and deferred income taxes. The judgments notably relate to the provisions and contingencies, assessment of going concern uncertainties, application of the deferral criteria and determination of when development was completed on the STAR-ISMS®.

## **Related Party Transactions**

The Company has accrued and carries a significant balance on its consolidated 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 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. Such amounts are accrued.

Committee Chairpersons are selected from amongst the Directors of the Company to lead the Audit, Compensation, Corporate Governance and Strategic Planning and Human Resources committees. Chairpersons are remunerated at the following rates; Audit Chairman - \$2,000 per month accrued, Corporate Governance Chairman - \$1,000 per month paid, Human Resources Chairman - \$1,000 per month accrued. All of the above amounts are recognized in the consolidated financial statements of the Company.

The terms for repayment of the amounts owing to the various Board 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 offered by the Company. Such amounts are non-interest bearing and unsecured.

The following balances are due to related parties as of June 30, 2014:

Due to Directors - \$84,000 (2013 - \$16,000), Due to Committee Chairpersons - \$24,000 (2013 - \$16,000), and Due to Chief Executive Officer and Chairman of the Board of Directors - \$1,093,000 (2013 - \$1,017,392).

The amount due to the Chief Executive Officer and Chairman of the Board of Directors 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 that time.

## **Related Party Transactions (Cont'd)**

Included in the audited consolidated statement of comprehensive loss for the year ended June 30, 2014, in general and administrative expenses is \$562,385 (2013 - \$677,335) in fees paid and accrued to directors and officers of the Company. An amount of \$282,000 in respect of salary (2013 - \$282,000) was accrued to the Company CEO. As well, a total of \$49,501 (2013 - \$25,143) was accrued to the Chief Executive Officer regarding interest on the outstanding loan owed to him. The rate of interest paid was Bank of Canada prime + 2%.

Also included in the general and administrative total of \$562,385 (2013 - \$677,335) were Board of Directors fees of \$82,323 (2013 - \$96,000) which were accrued. Chairperson fees of \$47,505 (2013 - \$49,192) were accrued and paid. Payments to the Chief Operating Officer of \$12,681 (2013- \$150,000) were paid. Professional fees of \$88,375 (2013 - \$75,000) were paid to the Chief Financial Officer of the Company.

The amounts owing to related parties are unsecured, bear interest at prime + 2.0% and have no fixed terms for repayment.

## **Subsequent Events**

On July 7, 2014, Star Navigation Systems Group Ltd. announced that it has signed a five (5) year contract with Skyservice Business Aviation Inc. ("Skyservice") of Montreal, for the purchase of the STAR-A.D.S.<sup>™</sup> solution for installation on Learjet 45's operated by Skyservice Air Ambulance. The potential total value of the contract is estimated to be \$550,000.00 over 5 years, based on list prices and anticipated flight hours.

On August 12, 2014, the Company announced that its' STAR Man Machine Interface Division ("STAR-MMI") has received additional orders for upgrades of displays from both a major Fortune 100 Aerospace Company, and from another overseas customer. The total business value of these increasing activities more than doubles the \$200,000 value of the orders for defense activities announced in June 2014, to over USD \$520,000 in the first four months of operations.

## **Contingency**

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with customers, vendors and former employees. Management believes that adequate provisions have been recorded in the accounts where required.

## **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, human resource costs of necessary additional research and development, competition, regulatory approvals and permitting, and the need to secure further equity or debt financing and/or funding.

## **Risk Factors and Risk Management (Cont'd)**

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. As the Company is now in a position to offer a fully developed STAR-A.D.S.<sup>™</sup> system to the commercial aviation world, the demands upon its R&D department are increasing, resulting in the need to hire additional staff in this area.

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® and STAR-A.D.S.<sup>™</sup> 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, including engineering, finance, operations or the executive.

A large percentage of the Company's sales initiatives prior to STAR-A.D.S.<sup>™</sup> involved non-North American customers, with the attendant travel and time requirements. Amongst other initiatives such as the STAR-A.D.S.<sup>™</sup> service, the Company is reviewing and reorganizing its sales process, and making greater use of video conferencing. It is also refocussing its efforts in order to provide an enhanced emphasis on potential North American customers.

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.

## **Risk Factors and Risk Management (Cont'd)**

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, and the current political unrest in Egypt, regulatory matters can delay the sales process to varying degrees. The Company relies upon entities such as Transport Canada ("TC") 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.

## **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 year ended June 30, 2014.