Star Navigation Systems Group Ltd.
Management's Discussion and Analysis
For the three and six month periods ended December 31, 2012 and December 31, 2011

1. Date – February 18, 2013

The following management discussion and analysis ("MD&A") is a review of operations, current financial position and outlook for Star Navigation Systems Group Ltd. (the "Company" or "Star") for the three and six month periods ended December 31, 2012 and 2011 and should be read in conjunction with the consolidated audited financial statements for the years ended June 30, 2012 and June 30, 2011. Amounts are reported in Canadian dollars based upon the financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). Information contained herein is presented as at February 18, 2013.

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

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

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

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

1. General Development of the Business

History

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

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

Star has also entered into an agreement with CMC Electronics Inc., a wholly owned subsidiary of Esterline Corporation ("CMC"), to integrate Star software with CMC's PilotView® Electronic Flight Bag ("EFB type 2") for sale to their existing customers. There have been no further developments to date but further meetings are planned for calendar 2013.

Capability of the STAR-ISMS® G2 System

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

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

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

Selected Financial Information and Management's Discussion and Analysis

Annual Information

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

	Year ended June 30, 2012 (IFRS)	**Year ended June 30, 2011** (IFRS)	**Year ended June 30, 2010** (CGAAP)
Total revenues	$72,672	$98,591	$153,849
Net Loss	$(3,059,143)	$(3,758,212)	$(3,363,082)
Total assets	$1,189,360	$2,734,324	$2,517,752
Total long term liabilities	$65,167	$Nil	$14,978
Cash dividends declared	$Nil	$Nil	$Nil

The Company continues to experience losses as it moves toward full commercialization of its STAR-ISMS® product. In the fiscal year ended June 30, 2012 the Company sustained a loss of $3,059,143 compared to $3,758,212 for 2011. Losses for the last 3 years (2012, 2011 and 2010) are averaging $3,393,479 per year.

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

As can be seen from the table above, total assets for the years ended 2011 and 2010 were fairly close in value as the Company's cash levels were sufficient to operate the Company. Assets in the fiscal year ending June 30, 2012 have dropped to less than half of 2011. The Company completed a private placement in February 2012, which raised $1,520,000 and completed another private placement in September 2012 that raised a further $2,088,000. The Company also completed a debt conversion in November 2012 which has reduced the Company's debt load by $204,037.

The Company's focus and attention continues to be, very strongly directed towards commercialization of its core product, the STAR-ISMS®, the development and roll-out of the ADS, closing current sales initiatives with commercial airlines and continued development of other products currently available or in development.

The Company has minimal long-term debt as at December 31, 2012 and continues to manage its cash balance conservatively until it has completed some larger orders for its STAR-ISMS® product.

Overview and Overall Performance

The Company continues to sustain losses as it pushes towards full commercialization. The Company completed a private placement in September 2012 that raised over $2.08m dollars. This will allow the Company to operate while it completes the ADS pilot project (See Operational Milestones). The cash balance at June 30, 2012 was $67,262 whereas the balance at December 31, 2012 is $846,722. Assets are up since June 30 by $740,680 driven mainly by the private placement completed in September 2012.

Accounts receivable are up by $122,636 as a result of a sale to Paradigm for the ADS pilot project. Prepaid expenses are down $36,292 since June 30, 2012 due to realization of a miscellaneous recovery.

Inventory is down by $29,185 as Star completed a sale to Paradigm. Star now has multiple units of its STAR-ISMS® in stock and ready for sale. Capital Assets have decreased by the depreciation recorded for the six months ended December 31, 2012.

There were no Capital Asset additions in this quarter. Intangible assets also decreased by amortization.

Accounts payable and accrued liabilities are down significantly by $231,027 from June 30, 2012 as the Company used some of the money it raised to reduce accounts payable.

Amounts due to related parties have dropped by $66,034 from June 30, 2012 due to some of the Company directors, officers and Strategic Advisory Board members utilizing some of their accrued compensation in order to participate in the private placement in September and the shares for debt conversion in December 2012.

The Company's share capital continues to rise in fiscal 2013. Total common shares outstanding rose from 207,240,078 at June 30, 2012 to 238,311,666 at December 31, 2012. The Company completed a private placement in September 2012 netting over $2.0m and also completed a shares for debt transaction that reduced the Company's debt by $204,037 and added 2,550,463 common shares.

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

The Company entered into agreements with respect to sales of its STAR-ISMS® to MidWest. MidWest is the first customer for the G2 STAR-ISMS®. Star received the Transport Canada ("TC") approved STC for the installation of the STAR-ISMS® on the Midwest 737-800 aircraft in April 2012. The Midwest sale is proceeding but delays have been encountered due to regulatory issues involved in obtaining the required STC validation for Egypt.

The Company also successfully achieved AS9100 Rev C: ISO 9001:2008 certification in 2011. AS9100 Rev. "C" is the international quality management system standard for Aircraft, Space and Defense ("AS&D") industry. The standard is based on ISO 9001:2008 and includes additional quality system requirements specifically for aerospace. The standard provides manufacturers and suppliers with an internationally recognized quality system for providing safe and reliable products to the aerospace (civil, military) industry. The Company completed its annual audit in January 2013 by the BSI Group Canada Inc. ("BSI') (the certifying organization) and was recommended for continued certification.

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

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

To-date there has been no 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.

Operational Milestones

During the year ended June 30, 2012 and for the six month period ended December 31, 2012, the Company has made the following progress towards achieving its objectives:

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

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

- In China, due to delays in the project, Star has not been active in that area but continues to maintain and enhance its relationships with its contacts in China. There has been no change to the status of this project at December 31, 2012.

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

Outlook

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

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

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

- Continue to develop the capability of its current ground station services to serve those of its customers who will not be part of the ADS service. The main ADS ground station will be located in Paradigm's facilities in the United Kingdom.

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

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

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

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

- Continue to closely monitor and defend our Intellectual Property and to 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.

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

Summary of Quarterly Results

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

(Expressed in $)

Three months	**2012**	**2012**	**2012**	**2012**
Period Ending	**December 31**	**September 30**	**June 30**	**March 31**
Revenue	16,446	117,536	15,940	18,841
Working Capital/(Deficit)	(319,144)	179,639	(1,403,649)	(586,787)
Expenses	754,910	706,589	707,642	789,475
Net Loss	(738,463)	(588,604)	(691,702)	(752,206)
Net Loss (per Share)	(0.003)	(0.0028)	(0.004)	(0.003)

	2011	**2011**	**2011**	**2011**
Period Ending	**December 31**	**September 30**	**June 30**	**March 31**
Revenue	19,623	18,268	24,872	20,896
Working Capital/(Deficit)	(1,474,554)	(819,142)	(185,932)	(443,455)
Expenses	830,288	826,206	1,552,096	145,596
Net Loss	(810,607)	(804,628)	(1,544,008)	(133,072)
Net Loss (per Share)	(0.004)	(0.004)	(0.009)	(0.005)

Quarter-over-quarter fluctuations for fiscal 2013 and 2012 are primarily as follows:

- Low and inconsistent revenue generation throughout the years
- Working capital for the three month period ended December 31, 2012 has reverted back to a deficit position from September 2012 as the Company continues to spend money to get its product to market in the absence of any significant sales.
- Working capital fluctuations in fiscal 2013 and 2012 are primarily due to the completion of equity private placements that the Company has completed throughout these periods.
- Expenses per quarter in both 2013 and 2012 have remained consistent averaging $769,185 per quarter for the last six quarters from December 31, 2012.
- Net losses are averaging $731,035 per quarter for the last six quarters.
- For fiscal 2012 working capital remained in a negative position for the whole fiscal year as the Company only completed one private placement in February 2012.
- Net losses for the years ending June 30, 2012 and June 30, 2011 were $3,059,143 and $3,758,212.

RESULTS OF OPERATIONS
Comparison of the three and six month periods ended December 31, 2012 and December 31, 2011.

The following commentary compares the unaudited condensed interim consolidated financial results for the three and six months ended December 31, 2012 and 2011.

Overview:

The Company sustained losses of $1,327,067 for the six months ended December 31, 2012 vs. $1,615,235 for 2011 and $738,463 for the three month period ended December 31, 2012 vs. a loss of $810,607 for 2011. The decrease in losses for both the three and six month periods 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 is confident that it will continue to build on increased market awareness as a result of the ADS pilot project with Air North and that further sales will occur at an increased rate in the future.

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. Both Boeing and Airbus have increased their forecasts for aircraft production through to 2030.

Revenues:

Revenues for the three month period ended December 31, 2012 have decreased by $3,177 over the same period in 2011. This is a result of current customers using less airtime in this period.

Revenues for the six month period ended December 31, 2012 have increased over the same six month period for 2011 by $96,002 due to the sale of its STAR-ISMS® units to Astrium.

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

The Company did not sell any of its STAR-ISMS® Lite units in the six months ended December 31, 2012. The inconsistency in sales highlights the Company's push to market of its STAR-ISMS®.

Cost of Sales:

Cost of Sales has increased in this three month quarter ending December 31, 2012 as the Company has incurred some extra costs associated with obtaining an STC for the ADS pilot project.

For the six month period ended December 31, 2012 cost of sales has increased as the Company has completed a sale of its STAR-ISMS® units to Paradigm and also incurred other non STC costs associated with the Air North installation.

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:

Three-months ended December 31, 2012

R&D expenses have increased by $28,471 over 2011 (2012 - $253,377 vs. 2011 - $224,906) for the three month period ended December 31, 2012. This change was due to increases in amortization and project costs. Amortization costs increased in this quarter by $49,426 (2012 - $61,244 vs. 2011 - $11,818). The increase is due to amortization on its testing equipment and a new computer server as well. Project costs increased as the Company obtained the necessary STC for its ADS pilot project with Air North.

Wages dropped by $40,296 (2012 - $118,481 vs. 2011 - $158,777). The Company has not replaced the Chief Technology Officer ("CTO") position as of this quarter-end date. Some of the decrease was offset by an increase in personnel. A decrease of $97,872 in materials and other costs occurred in the 2012 quarter as costs from 2011 were one-time only costs.

Six-months ended December 31, 2012

R&D expenses for the six month period ended December 31, 2012 have also decreased (2012 - $412,893 vs. 2011 - $483,251). This drop of $70,358 was achieved similarly to the three month period. Increases occurred in amortization of $97,489 for the six month period. Materials and development costs dropped by $95,806 and R&D wages decreased by $82,557 (2012 - $227,602 vs. 2011 - $310,159) as the Company has not replaced the CTO position. Smaller decreases occurred in R&D travel expense.

General and Administrative:

Three-months ended December 31, 2012

G&A expenses have increased by $6,046 (2012 - $394,744 vs. 2011 - $388,698) for this three month period ending December 31, 2012. This decrease is a result of various increases and decreases in several expenses in the G&A category.

Fees accrued to Board of Director members have increased in this quarter by $6,000 as the Company had 4 non-executive board members for the full quarter whereas in 2011, it only had three. The Strategic Advisory Board ("SAB") fees are nil for this current quarter as the Company disbanded the SAB effective January 31, 2012. Fees for the SAB in 2011 were $15,500 for the quarter ending December 31, 2011. Committee Chairperson accrued fees have increased as the Company now has a Compensation and Corporate Governance chair and a Strategic Planning and Human Resources chair in the period ending December 31, 2012. The Company only had an Audit Committee chair in 2011.

G&A consulting costs have increased by $4,000 in 2012 (2012 - $13,000 vs. 2011 - $9,000). In 2012 the Company has engaged the services of an executive familiar with the Company to aid it in facilitating talks with CMC and pays him a fee of $3,000 per month. In 2011 fees were paid for services rendered by a Director of the Company for participating on the SMC. The Director receives a fee of $1,000 - $3,000 per SMC meeting.

Regulatory filing fees have increased in this quarter by $9,618 due to costs associated with the Annual general meeting held in December by the Company and the filing of the Company's annual audited financial statements. Insurance expense has increased by $3,412 over the same quarter in 2011 due to yearly insurance renewal increases.

Professional fees have decreased in this three month quarter of 2012 by $9,006 (2012 - $75,684 vs. 2011 - $84,690). The decrease occurred as a result of legal fees decreasing by $19,476 from 2011. The legal fee decrease was driven by the Company having paid for a due diligence opinion on patent infringement in December 2011. Audit fees for the 2012 have risen due to increased costs associated with auditing the transition from GAAP to IFRS financial statements.

Six-months ended December 31, 2012

For the six month period ending December 31, 2012, G&A expenses have decreased by $39,930 (2012 - $700,299 vs. 2011 - $740,229). This decrease is a result of a combination of increases and decreases in several expenses in the G&A category.

Fees accrued to Board of Director members have increased in this six month period $16,000 as the Company had four non-executive board members for the full six month period whereas in 2011, it only had four non-executive members for four of the six months. The Strategic Advisory Board ("SAB") fees are nil for this year as the Company disbanded the SAB effective January 31, 2012. Fees for the SAB in 2011 were $31,000 for the six month period ending December 31, 2011. Committee Chairperson accrued fees have increased as the Company now has a Compensation and Corporate Governance chair and a Strategic Planning and Human Resources chair in the period ending December 31, 2012. The Company only had an Audit Committee chair in 2011.

G&A consulting costs have increased by $13,000 in 2012 (2012 - $22,000 vs. 2011 - $9,000). In 2012 the Company has engaged the services of an executive familiar with the Company to aid it in facilitating talks with CMC for which he is remunerated at the rate of $3,000 per month. In 2011 fees were paid for services rendered by a Director of the Company for participating on behalf of the Company at SMC meetings. This Director receives $1,000 - $3,000 per SMC meeting in fees.

Regulatory filing fees have increased by $13,652 due to costs associated with the Annual general meeting held in December by the Company and the filing of the Company's annual audited financial statements as well as fees paid to the TSX-V for extending warrants and debt for shares conversion. Insurance expense has increased by $6,890 over the same period as in 2011 due to yearly insurance renewal increases.

Professional fees have decreased in this six month period by $82,135 (2012 - $116,651 vs. 2011 - $198,786). The decrease occurred as a result of legal fees decreasing by $80,106 from 2011. The legal fee decrease was driven by the Company having paid for a due diligence opinion on patent infringement in December 2011.

G&A Wages have increased in this six month period due to the addition of a Quality Manager to staff in October 2011. This addition coupled with a reduction in office staff for this period resulted in a total increase of $13,125.

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

Marketing and Promotion:

Three-months ended December 31, 2012

M&P costs have decreased in both the three month and six month periods. In the three months ending December 31, 2012 M&P costs have dropped $59,513 (2012 - $47,601 vs. 2011 - $107,114) and for the six month year to date they have decreased by $93,388 (2012 - $107,811 vs. 2011 – 201,199).

The decrease for the three month period is primarily due to reductions in consultant costs and travel. The Company has no employees in its M&P department as it has moved to the use of consultants when required.

This allows the Company better control over the use of resources necessary to promote its product and allows it to enlist specialists where needed. The Company has reduced the number of consultants in this quarter of 2012 resulting in the decrease. Total travel expense is also down by $25,832 as some travel costs were associated with former consultants and therefore have been reduced. Investor relations costs decreased in this period by $5,000 over 2011.

Six-months ended December 31, 2012

For the six month period ending December 31, 2012, M&P expenses have decreased by $93,388 over the same period in 2011. Consulting costs have been reduced by $16,400 as the Company has cut back in this area and corresponding to this reduction, travel costs have been reduced by $48,856. Investor relation costs are down by $20,000 as the Company has not had an investor relations firm for this six month period of 2012. Star had a firm representing them in the first six months of 2011 but that contract was terminated at December 31, 2011.

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

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

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 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 six month period ended December 31, 2012 stock-based compensation amounted to $50,170 vs. $207,852 in 2011. The decrease in stock-based compensation was due to the changeover to IFRS. This change which the Company instituted as of July 1, 2010 changes how the stock-based compensation on options that the Company grants is calculated.

Foreign Exchange Gain/Loss:

Monetary assets and liabilities denominated in foreign currencies are translated at the period end exchange rate. Non-monetary assets and liabilities as well as revenue and expense transactions denominated in foreign currencies are translated at the rate prevailing at the time of the transaction. Translation gain or loss adjustments are recognized in the period in which they occur. The Company transacts its sales and equipment purchases in US dollars. At December 31, 2012 the Company held $5,425 (June 30, 2012 - $36,855) of cash and cash equivalents in US dollars.

Liquidity and Capital Resources

The Company had cash and cash equivalents of $846,722 at December 31, 2012 compared to a cash balance of $67,262 at June 30, 2012. The Company's cash balance was bolstered by the completion of a non-brokered private placement of 26,100,000 units (the "Units") of the Company at an issue price of $0.08 per Unit for gross proceeds totaling $2,088,000 completed in September 2012. Star also completed a debt for shares conversion in December 2012 further reducing its debt-load by $204,037. Participating in this debt for shares were some vendors and Board of Directors members as well as former Strategic Advisory Board members who exchanged their accrued fees for shares. The Company now has a working capital deficiency of $319,144 at December 31, 2012 compared to a working capital deficiency of $1,403,649 at June 30, 2012. The Company now has current cash reserves to sustain current operations for the next six 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 may seek additional financing should it sign a major deal. The Company continues to keep its accounts payable current and does not suffer from any defaults on its lease commitments.

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

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

Off Balance Sheet Arrangements

As at December 31, 2012 the Company had no off balance sheet arrangements such as guaranteed contracts, contingent interests in assets transferred to an entity, derivative instrument obligations or any instruments that could trigger financing, market or credit risk to the Company.

Outstanding Share Data

Series I First Preferred Shares	615,000
Common Shares (i)	238,311,666
Share Purchase Warrants (ii)	97,909,005 (exercise prices ranging from $0.20 cents to $0.50)
Stock Options	13,159,828 (exercise prices ranging from $0.10 to $0.32 with expiry dates up to February 24, 2016 and various graded vesting provisions).

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

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

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

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

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

10,776,666 common share purchase warrants issued pursuant to a private placement accepted for filing November 10, 2009 (the “November 10, 2009 Warrants"), set to expire on December 1, 2012 will now expire on November 1, 2014. Each November 10, 2009 Warrant will continue to entitle the holder thereof to purchase one common share of Star at an exercise price of $0.20.

3,428,333 common share purchase warrants issued pursuant to a private placement accepted for filing December 7, 2009 (the “December 7, 2009 Warrants"), set to expire on December 1, 2012, will now expire on November 1, 2014. Each December 7, 2009 Warrant will continue to entitle the holder thereof to purchase one common share of Star at an exercise price of $0.20.

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

Significant Accounting Policies

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

Recent Accounting Pronouncements Issued and Not Yet Applied

Future IFRS changes

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

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

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

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

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

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

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

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

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

Estimates

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

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

Related Party Transactions

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

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

At December 31, 2012, management estimates that there is the potential for the amounts due to be paid in the next fiscal year, and accordingly they have been classified as current liabilities. The only fixed contractual obligations the Company has with related parties are the compensation contracts it has with the CEO, COO, and CFO.

The following balances are due to related parties as of December 31, 2012:

Due to Directors - $32,000 (June 30, 2012 - $156,000), Due to Advisory Board members - $nil (June 30, 2012 - $92,676) and Due to Committee Chairpersons - $30,000 (June 30, 2012 - $30,000) and Due to Chief Executive Officer and Chairman of the Board of Directors - $1,182,249 (June 30, 2012 – $990,749).

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

Included on the statement of comprehensive loss for the six month period ended December 31, 2012, in general and administrative expenses is $288,989 (2011 - $363,000) in fees paid and accrued to directors and officers of the Company. An amount of $141,000 (2011 - $141,000) was paid to the Company CEO.

Board of Directors fees of $48,000 (2011 - $32,000) were accrued. Advisory Board fees of $Nil (2011 - $31,000) were accrued. Chairperson fees of $12,689 (2011 - $12,000) were accrued. Included in research and development is $Nil (2011 - $90,000) in fees paid and accrued to the Chief Technology Officer and a director of the Company (the individual ceased to be Chief Technology Officer effective February 1, 2012 and resigned as a director of the Company on April 13, 2012). Payments to the Chief Operating Officer $75,000 (2011 - $75,000) were paid. Professional fees of $36,000 (2011 – $36,250) were paid to the Chief Financial Officer of the Company.

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

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

Financial Instruments and Other Instruments

Financial Instruments

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

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

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

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

Held-to-maturity (“HTM”)

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

Loans and receivables

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

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

Available for sale (“AFS”)

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

Financial liabilities

Financial liabilities are classified into one of two categories:

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

Fair value through profit or loss

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

Other financial liabilities

This category is recognized at amortized cost.

Impairment of financial assets

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

For all financial assets objective evidence of impairment could include:

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

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

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

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

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

The Company had no other comprehensive income or loss transactions during the six month period ended December 31, 2012.

Subsequent Events

On January 16, 2013 the Company announced that pursuant to its 2006 Incentive Stock Option Plan, as amended, the Board of Directors of the Company has approved the grant of incentive stock options to purchase 1,811,900 common shares in the capital stock of the Company to certain directors and officers of the Company (the "Grantees"). The options expire January 14, 2018, and are exercisable at a price of $0.15 per share. The stock options granted to the Grantees replace stock options expiring between December 15, 2012 and February 7, 2013, and vest four months after the date of issue.

Risk Factors and Risk Management

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

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

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

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

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

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

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

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

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

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

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

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

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

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

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

It should be noted that while the Company's CEO and CFO believe that the Company's DC&P provide a reasonable level of assurance that they are effective, they do not expect that the DC&P or ICFR will prevent all errors or fraud. There have been no material changes to the internal controls of the Company for the six month period ended December 31, 2012.