Star Navigation Systems Group Ltd.

Condensed Interim Consolidated Financial Statements

(unaudited)

For the three and nine month periods ended March 31, 2013 and 2012

(Expressed in Canadian dollars)

NOTICE TO READER

The accompanying unaudited condensed interim consolidated financial statements have been prepared by the Company’s management and the Company’s independent auditors have not performed a review of these financial statements.

Toronto, Ontario
May 30, 2013

Star Navigation Systems Group Ltd.
Unaudited Condensed Interim Consolidated Statement of Financial Position
(Expressed in Canadian dollars)

	Mar 31, 2013	June 30, 2012 (Audited)
Assets		
Current		
Cash and cash equivalents	$ 520,625	$ 67,262
Accounts receivable (Note 12(c))	135,964	60,821
Inventory	218,801	247,986
Prepaid expenses and sundry receivables	190,016	202,602
	1,065,406	578,671
Property and equipment (Note 5)	121,301	178,462
Intangible assets (Note 6)	312,526	432,227
	$ 1,499,233	$ 1,189,360
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 7)	$ 596,125	$ 436,654
Current portion of finance lease obligation (Note 8)	34,383	34,383
Due to related parties (Note 14)	1,120,718	1,305,283
Other payables	196,000	196,000
Deferred revenue	10,000	10,000
	1,957,226	1,982,320
Finance lease obligation (Note 8)	39,567	65,167
	1,996,793	2,047,487
Shareholders' Equity (Deficiency)		
Share capital (Note 9)	27,468,521	26,280,393
Contributed surplus (Note 10)	12,770,038	11,258,453
Deficit	(40,736,119)	(38,396,973)
	(497,560)	(858,127)
	$ 1,499,233	$ 1,189,360

Nature of Operations (Note 1)

Commitments and Contingencies (Note 13)

Subsequent Event (Note 17)

Approved by the Board *"Viraf S. Kapadia"* **Director** *(Signed)* *"Charles Wyburn"* **Director** *(Signed)*

Star Navigation Systems Group Ltd.
Unaudited Condensed Interim Consolidated Statements of Loss & Comprehensive Loss
For the three and nine month periods ended March 31, 2013 and 2012
(Expressed in Canadian dollars)

	Three months ended, March 31		Nine months ended, March 31	
	2013	2012	**2013**	2012
	$	$	**$**	$
Revenue (Note 15)	**$ 10,498**	$ 18,841	**$ 144,481**	$ 56,732
Expenses				
Cost of sales	**10,411**	16,493	**200,747**	41,782
Research and development (Note 16)	**255,993**	229,856	**668,886**	713,108
General and administrative (Note 16)	**316,981**	356,311	**1,014,280**	1,096,541
Marketing and promotion	**73,165**	112,455	**183,976**	313,654
Stock based compensation	**-**	103,926	**50,170**	311,778
Foreign exchange	**(1,110)**	(29,566)	**(1,120)**	(30,895)
	655,440	789,475	**2,116,939**	2,445,968
Loss from operations	**(644,942)**	(770,634)	**(1,972,458)**	(2,389,236)
Other Income				
Gain on settlement of debt	**-**	18,428	**-**	18,428
Interest income	**-**	-	**449**	3,367
Net Loss and Comprehensive Loss for the Period	**$ (644,942)**	$ (752,206)	**$ (1,972,009)**	$ (2,367,441)
Basic and diluted loss per common share	**$ (0.003)**	$ (0.003)	**$ (0.009)**	$ (0.012)
Weighted average number of common shares outstanding	**207,624,394**	191,700,651	**223,499,794**	192,017,033

Star Navigation Systems Group Ltd.
Unaudited Condensed Interim Consolidated Statements of Loss & Comprehensive Loss
For the three and nine month periods ended March 31, 2013 and 2012
(Expressed in Canadian dollars)

	Number of common shares	Number of Series I preferred shares	Share capital	Contributed surplus	Deficit	**Total**
Balance at June 30, 2011	189,594,978	615,000	$24,706,373	$9,144,450	$(33,498,232)	**$352,591**
Issued for cash on private placement (net of issuance costs)	15,200,000	-	1,374,090	-		**1,374,090**
Issued as finders' fees in shares	1,520,000	-	136,800	-		**136,800**
Fair value of options exercised	-	-	76,702	(76,702)		
Stock options exercised	847,000	-	135,270	-	-	**135,270**
Stock-based compensation	-	-	-	311,778	-	**311,778**
Value allocated to warrants issued as part of private placement	-	-	(183,895)	183,895	-	
Warrant modification	-	-	-	1,240,765	(1,240,765)	**-**
Loss for the period	-	-	-	-	(2,367,441)	**(2,367,441)**
Balance at March 31, 2012	**207,161,978**	**615,000**	**$26,245,340**	**$10,804,186**	**$(37,106,438)**	**$(56,912)**

	Number of common shares	Number of Series I preferred shares	Share capital	Contributed surplus	Deficit	**Total**
Balance at June 30, 2012	207,240,078	615,000	$26,280,393	$11,258,453	$(38,396,973)	**$(858,127)**
Issued for cash on private placement	26,100,000	-	2,088,000	-	-	**2,088,000**
Issued as finders' fees on private placement	2,373,125	-	189,850	-	-	**189,850**
Issued as shares for debt conversion	2,550,463	-	204,037	-	-	**204,037**
Value allocated to warrants as part of private placement	-	-	(1,095,238)	1,095,238	-	**-**
Stock options exercised	48,000	-	4,800	-	-	**4,800**
Share issuance costs	-	-	(204,281)	-	-	**(204,281)**
Fair Value of options exercised	-	-	960	(960)	-	-
Stock-based compensation	-	-	-	50,170	-	**50,170**
Warrant modification (Note 10)	-	-	-	367,137	(367,137)	**-**
Loss for the period	-	-	-	-	(1,972,009)	**(1,972,009)**
Balance at March 31, 2013	**238,311,666**	**615,000**	**$27,468,521**	**$12,770,038**	**$(40,736,119)**	**$(497,560)**

Star Navigation Systems Group Ltd.
Unaudited Condensed Interim Consolidated Statement of Cash Flows
For the three and nine month periods ended March 31, 2013 and 2012
(Expressed in Canadian dollars)

	Three months ended,		Nine months ended,	
	March 31	March 31	**March 31**	March 31
	2013	2012	**2013**	2012
	$	$	**$**	$
Cash provided by (used in)				
Operations				
Net loss	**$ (644,942)**	(752,206)	**$ (1,972,009)**	(2,367,441)
Items not affecting cash				
Amortization	**82,150**	25,773	**203,229**	49,363
Stock-based compensation	**-**	103,926	**50,170**	311,778
	(562,792)	(622,507)	**(1,718,610)**	(2,006,300)
Net changes in non-cash working capital				
Accounts receivable	**47,493**	(9,753)	**(75,143)**	15,661
Inventory	**-**	(281,751)	**29,185**	(281,751)
Prepaid expenses and sundry receivables	**(23,706)**	345,510	**12,586**	321,086
Accounts payable and accrued liabilities	**352,325**	(134,931)	**159,471**	(369,126)
Due to related parties	**(129,531)**	(353,824)	**(184,565)**	(398,914)
	(316,211)	(1,057,256)	**(1,777,076)**	(2,719,344)
Investing				
Intangible asset additions	**(1,229)**	(69,616)	**(26,367)**	(40,715)
Financing				
Repayment of finance lease obligation	**(8,657)**	(150)	**(25,600)**	(1,555)
Issuance of capital stock net of share issuance costs	**-**	1,579,890	**2,282,406**	1,646,160
	(8,657)	1,579,740	**2,256,806**	1,644,605
Net change in cash and cash equivalents	**(326,097)**	452,868	**453,363**	(1,115,454)
Cash and cash equivalents, beginning of period	**846,722**	153,202	**67,262**	1,721,524
Cash and cash equivalents, end of period	**$ 520,625**	606,070	**$ 520,625**	606,070
Supplemental Disclosure				
Interest paid	**$ -**	-	**$ -**	3,222
Issuance of common share units for finder's fees (Note 9)	**-**	-	**189,850**	-

See accompanying notes

1. NATURE OF OPERATIONS

Star Navigation Systems Group Ltd. ("the Company") is devoting substantially all of its activity to the development, marketing and promotion of an In-flight Safety Monitoring System ("STAR-ISMS®"), whereby data from an aircraft can be transmitted to ground stations for the duration of a flight. Certain technology used for this system as well as patents granted have been licensed to the Company by a director (Note 6). In March 2012, Transport Canada granted a STC certificate to the Company for use of the system on a Boeing 737-800.

The Company's ability to continue operations, meet its obligations and realize its investment in development costs is dependent on the continued support from investors and related parties to finance sales to customer's, continue the project development, obtain the necessary certifications from regulatory agencies as well as successfully marketing the STAR-ISMS® for gain.

The Company has completed the development of their STAR-ISMS®. The Company's registered head office is located at 203-2970 Lakeshore Blvd W., Toronto, Ontario M8V 1J7.

2. BASIS OF PRESENTATION

(a) Statement of Compliance

These condensed interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These condensed interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting and are consistent with the accounting policies disclosed in the annual audited consolidated financial statements for the year ended June 30, 2012.

The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on May 30, 2013.

(b) Basis of Measurement

The condensed interim consolidated financial statements have been prepared under the historical cost convention, except for certain financial assets which are measured at fair value through profit or loss ("FVTPL").

(c) Functional and presentation currency

These condensed interim consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency.

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

These condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned operating subsidiaries, Star Navigation Systems Inc. ("Star"), Star Navigation Systems (Quebec) Inc. and Star Navigation Systems (U.K) Ltd. Star Navigation Systems (Quebec) Inc. and Star Navigation Systems (U.K) Ltd. are inactive. All significant inter-company transactions and balances have been eliminated on consolidation. All references to the Company should be treated as references to the Company and its subsidiaries.

Revenue Recognition

The Company recognizes revenue at the time persuasive evidence of an arrangement exists, price is fixed and determinable, the delivery has occurred and collectability is reasonably assured. Revenues from the sale of the Company's STAR-ISMS® are recognized when the installation of the system is complete, defined to be when the related equipment has been installed in a customer's aircraft or transportation vehicle, tested and accepted by the customer, and has received the necessary regulatory approvals. Installations are generally conducted by customers under the Company’s management and supervision. In the event the customer chooses to manage the installation without the Company’s supervision, revenues are recognized when the product is delivered to the customer.

Revenues from airtime services are recognized as the services are performed based on air time used by the customer. The customer is billed at the end of each month.

In the event that the Company’s STAR-ISMS® and airtime are sold as a bundled package, the Company enters into transactions that represent multiple-element arrangements. These multiple-element arrangements are assessed to determine whether they can be sold separately in order to determine if they can be treated as more than one unit of accounting or element for the purpose of revenue recognition. When there are multiple elements or units of accounting in an arrangement, the arrangement consideration is allocated to the separate units of accounting or elements on a relative fair value basis, as determined by reliable objective evidence of fair value. Objective evidence of fair value is based on the price charged when the elements are sold separately, which is in accordance with the Corporation’s standard price list. If elements cannot be sold separately, revenue recognition is deferred until all elements have been delivered.

Investment Tax Credits

The Company accrues investment tax credits for qualifying research and development costs when there is reasonable assurance that the amounts are recoverable. The Company accounts for the investment tax credits relating to research and development expenses as a deduction in the statement of comprehensive loss and those relating to capital expenditures as a reduction of the cost of the assets acquired.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Stock-Based Compensation and Other Stock-Based Payments

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 provided, unless the fair value cannot be estimated reliably. In cases where the fair value cannot be estimated reliably, the Company measures these transactions by reference to the fair value of the equity instruments granted. Each tranche is considered a separate award with its own vesting period and fair value. Stock-based compensation is charged to the statement of comprehensive loss 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.

Warrants

For transactions involving the issuance of warrants, the Company measures these transactions at the fair value of the goods or services received, unless the fair value cannot be estimated reliably. In cases where the fair value cannot be estimated reliably, the Company measures these transactions by reference to the fair value of the equity instruments granted. In the case of unit placements, the proceeds from the issuance of units is allocated between common shares and warrants on a pro-rata basis based on relative fair values. Share issuance costs incurred in connection with the issuance of capital stock are netted against the proceeds received. Any incremental fair value resulting upon modification of warrants previously issued as part of unit placements is recognized in deficit.

Accounting Estimates and Judgements

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 intangible assets, stock-based compensation, warrants, and deferred income taxes. These judgements 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®.

4. 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, 2013 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, 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 Venturers, 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.

(Expressed in Canadian dollars)

5. PROPERTY AND EQUIPMENT

	Leasehold Improvement	Aircraft	Furniture and Equipment	Computer Equipment and Software	Computer Equipment under Finance Lease	Vehicles	**Total**
Cost							
Balance at June 30, 2012	$84,626	$50,951	$69,180	$138,735	$116,101	$6,690	**$466,283**
Additions	-	-	-	8,040	-	-	**8,040**
Balance at March 31, 2013	$84,626	$50,951	$69,180	$146,775	$116,101	$6,690	**$474,323**
Accumulated amortization							
Balance at June 30, 2012	$45,763	$17,514	$61,446	$123,286	$34,689	$5,123	**$287,821**
Amortization for period	14,066	6,966	1,289	8,566	33,922	392	**65,201**
Balance at March 31, 2013	$59,829	$24,480	$62,735	$131,852	$68,611	$5,515	**$353,022**
Carrying Amounts							
As at June 30, 2012	$38,863	$33,437	$7,734	$15,449	$81,412	$1,567	$178,462
Balance at March 31, 2013	$24,797	$26,471	$6,445	$14,923	$47,490	$1,175	**$121,301**

6. INTANGIBLE ASSETS

	Licenses	Website Costs	STAR-ISMS® and Peripherals	**Total**
Cost				
Balance at June 30, 2012	$136,146	$18,500	$462,926	**$617,572**
Additions	-	6,537	11,790	**18,327**
Balance at March 31, 2013	$136,146	$25,037	$474,716	**$635,899**
Accumulated Amortization				
Balance at June 30, 2012	$129,284	$4,625	$51,436	**$185,345**
Amortization for period	833	6,955	130,240	**138,028**
Balance at March 31, 2013	$130,117	$11,580	$181,676	**$323,373**
Carrying Amounts				
As at June 30, 2012	$6,862	$13,875	$411,490	**$432,227**
As at March 31, 2013	$6,029	$13,457	$293,040	**$312,526**

In 2002, the Company acquired the license rights to the STAR-ISMS® from a director. The underlying patents are now owned by one director of the Company (see Note 13). The Company owns the exclusive, worldwide license for the lifetime of the patents.

(Expressed in Canadian dollars)

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2013	June 30, 2012
Trade payables	**$117,801**	**$191,074**
Accrued liabilities and other	**478,324**	**245,580**
	$596,125	**$436,654**

8. FINANCE LEASE OBLIGATION

During the year ended June 30, 2012, the Company entered into a finance lease for computer equipment. The gross amount of the minimum lease payments related to assets under the finance lease was $117,745. The lease bears interest at 5.80%. The term of the lease is for 36 monthly payments, expiring on March 1, 2015. The following is a schedule of the future minimum lease payments under this finance lease expiring by 2015 together with the balance of the obligation under the finance lease.

	March 31, 2013
2013	**$ 9,812**
2014	**39,248**
2015	**29,437**
Total minimum payments	**78,497**
Less: interest at the implicit rate of 5.8%	**(4,547)**
Balance of the obligation	**73,950**
Less: current portion	**(34,383)**
	$ 39,567

(Expressed in Canadian dollars)

9. SHARE CAPITAL

Authorized

615,000	Series I First Preferred Shares, non-voting, entitled to non-cumulative dividends at a rate of 7% in priority to common shares, redeemable at $1.00 at the option of the Company.
350,000	Series II First Preferred Shares, non-voting, entitled to cumulative dividends at 9% per annum in priority to common shares and exchangeable for common shares at the rates of 5 common shares, 3.33 common shares and 2.5 common shares for each Series II Preferred Share in each of the first, second and third years after issue respectively. Redeemable at $1.00 per share at the option of the Company.
Unlimited	common shares

Issued during period

(a) 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. The price was reserved with the TSX-V. 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 will be paid in Units in connection with this private placement. All securities issued in the Offering and any shares issued upon exercise of Warrants are subject to a four month statutory hold period from the date of issuance. The net proceeds of the placement will be used for research and development, marketing and general working capital purposes.

(b) On November 6, 2012 the Company announced that it has applied for regulatory approval for a share 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 will issue 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 will result 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 will not result in a change of control and the transaction is subject to TSX-Venture Exchange approval. The shares issued will be restricted from sale for a period of four months plus a day after the date of issue.

10. CONTRIBUTED SURPLUS, STOCK-BASED COMPENSATION AND WARRANTS

Stock-Based Compensation

The Company has a Stock Option Plan (the "Plan") for employees, officers, directors and consultants performing special technical or other services of 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 common shares. The designation of Optionees, amount and vesting provisions of awards under the Plan are determined by the Board of Directors.

(Expressed in Canadian dollars)

10. CONTRIBUTED SURPLUS, STOCK-BASED COMPENSATION AND WARRANTS (Cont'd)

Stock Option Transactions	Number	Exercise Price	Weighted-Average Exercise price
Balance at June 30, 2012	**15,060,728**		**$ 0.19**
Exercised	(48,000)	$0.10	$ 0.10
Expired	(5,897,900)	$0.11-$0.25	$ 0.10
Issued	6,342,900	$0.12-$0.15	$ 0.15
Balance at March 31, 2013	**15,457,728**		**$ 0.19**
Exercisable at March 31, 2013	**8,989,828**		**$ 0.20**

The weighted average share price at the date of exercise was $0.16 for options exercised during the nine month period ended March 31, 2013.

As at March 31, 2013 the Company had stock options issued to directors, officers, employees and key consultants of the Company outstanding as follows:

Date of Grant	Options Granted	Options Exercisable	Exercise Price	Expiry Date
March 31, 2008	300,000	300,000	$0.15	March 30, 2015
August 21, 2008	440,000	440,000	$0.11	August 20, 2013
November 6, 2008	202,828	202,828	$0.15	November 5, 2013
June 30, 2009	627,000	627,000	$0.10	June 14, 2014
January 8, 2010	315,000	315,000	$0.15-$0.21	January 1, 2015
February 26, 2010	500,000	500,000	$0.26	January 1, 2015
March 30, 2010	2,025,000	2,025,000	$0.15-$0.32	March 31, 2015
June 3, 2010	450,000	450,000	$0.15-$0.22	March 31, 2015
February 4, 2011	500,000	500,000	$0.21	January 1, 2015
February 10, 2011	100,000	100,000	$0.20	January 1, 2015
February 14, 2011	525,000	525,000	$0.20-$0.21	February 14, 2013
February 25, 2011	500,000	500,000	$0.29	February 24, 2016
May 31, 2011	350,000	350,000	$0.15-$0.21	May 31, 2014
February 17, 2012	350,000	225,000	$0.12-$0.20	February 18, 2015
June 6, 2012	1,930,000	1,930,000	$0.10-$0.20	April 15, 2015
January 15, 2013	1,382,900	-	$0.15	January 14, 2018
February 15, 2013	4,960,000	-	$0.12-$0.15	February 14, 2018
	15,457,728	8,989,828		

(Expressed in Canadian dollars)

10. CONTRIBUTED SURPLUS, STOCK-BASED COMPENSATION AND WARRANTS (Cont'd)

Warrants

	Number of Warrants		Weighted-average Exercise Price	Expiry Date
Balance at June 30, 2012	69,435,880		$0.27	
Issued	28,473,125	(i)	$0.21	Sept 17, 2017
Balance at March 31, 2013	97,909,005		$0.29	

All warrants are exercisable on issuance.

(i) These warrants were issued as part of a unit financing in September 2012 (Note 9)

10,875,000 common share purchase warrants issued by the Company as part of the private placement that occurred on September 17, 2010. The term of these warrants was extended by 3.0 years.

On November 15, 2012, Star Navigation Systems Group Ltd. announced that it has 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. If accepted by the Exchange, the terms of the common share purchase warrants shall be 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.

(Expressed in Canadian dollars)

10. CONTRIBUTED SURPLUS, STOCK-BASED COMPENSATION AND WARRANTS (Cont'd)

The fair value of the warrants modified is determined using the Black-Scholes model for pricing warrants under the following weighted average assumptions:

	2013
Expected dividend yield	**Nil**
Risk free interest rate	**1.16%**
Expected volatility	**79%**
Expected Life	**2.14 years**
Share price	**$0.09**

Expected volatility is based on historical data.

The Black-Scholes value attributed to these modifications was $367,137 (2012 - $Nil) and has been recorded in deficit.

The fair value of the warrants issued as part of the unit offerings (see Note 9) is determined using the Black-Scholes model for pricing warrants under the following weighted average assumptions:

	2013
Expected dividend yield	**Nil**
Risk free interest rate	**1.00%**
Expected volatility	**145%**
Expected Life	**5.0 years**
Share price	**$0.04**

Expected volatility is based on historical data.

11. CAPITAL RISK MANAGEMENT

The Company includes equity, comprised of issued share capital, contributed surplus and deficit, in the definition of capital.

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to develop, market and promote its STAR-ISMS® technology and to maintain its ongoing operations. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity and warrants or by securing strategic partners.

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the three and nine month periods ended March 31, 2013.

12. FINANCIAL RISK MANAGEMENT

The Company is exposed to a variety of financial risks by virtue of its activities: market risk (including currency risk and interest rate risk), fair value risk, credit risk and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance.

Risk management is carried out by management under policies approved by the Board of Directors. Management is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the approved policies.

(a) Market Risk

(i) Currency risk:

The Company is exposed to foreign exchange risk from various currencies, primarily US dollars. Foreign exchange risk arises from significant sales and purchase transactions as well as recognized financial assets and liabilities denominated in foreign currencies.

The Company's main objective in managing its foreign exchange is to maintain US cash on hand to support US forecasted cash flows over a 12 month horizon. To achieve this objective the Company monitors forecasted cash flows in foreign currencies and attempts to mitigate the risk by modifying the currency of cash held. A 1% change in the foreign exchange rate would have a $5,000 impact on foreign exchange gain.

As at March 31, 2013 the Company held $66,188 (June 30, 2012 - $36,855) of cash and cash equivalents in US dollars.

(ii) Interest rate risk:

Interest rate risk is the risk that the future cash flows or the fair value of a financial instrument will fluctuate because of changes in market interest rates. The majority of the Company’s debt is at fixed rates and due in the short term. Accordingly, there is limited exposure to cash flow or price interest rate risk.

(b) Fair Value Risk

The carrying amount of cash and cash equivalents, accounts receivables, accounts payable and accrued liabilities, due to related parties and other payables (Note 14) approximate their fair values due to the short-term maturities of these instruments. The long-term portion of finance lease obligation has been discounted at a rate that approximates current market rates and therefore, approximates fair value.

(c) Credit Risk

The Company does not believe it is exposed to any significant concentration of credit risk. However, as disclosed in Note 15, the Company earns a significant amount of revenue from one customer. As at March 31, 2013, approximately $106,119 (June 30, 2012 - $39,946) of the Company's receivables were past due the average credit period of 90 days.

12. FINANCIAL RISK MANAGEMENT (Cont'd)

(d) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due.

The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of planned expenditures.

As at March 31, 2013, the Company has current liabilities of $1,957,226 within 12 months and has cash of $520,625 to meet its current obligations. As at March 31, 2013 the Company has a working capital deficiency of $891,820 and accordingly, the Company is subject to liquidity risk.

13. COMMITMENTS AND CONTINGENCIES

(a) An agreement was entered into between 2283188 Ontario Limited (the "Licensor"), a Company controlled by a shareholder, director and officer of the Company, and the Company, which requires royalties to be payable by the Company to the Licensor in the amount of:
   a. 3% of gross revenues from all sales of airborne ISMS units;
   b. 10% of all service fees; and
   c. 10% of all usage.

14. 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 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.

14. RELATED PARTY TRANSACTIONS (Cont'd)

Committee Chairpersons are selected from amongst the Directors of the Company to lead the Audit, Compensation and Corporate Governance 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 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 done by the Company. Such amounts are non-interest bearing and unsecured.

At March 31, 2013, 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 March 31, 2013:

Due to Directors - $56,000 (June 30, 2012 - $156,000), Due to Advisory Board members - $nil (June 30, 2012 - $92,676) and Due to Committee Chairpersons - $45,000 (June 30, 2012 - $30,000) and Due to Chief Executive Officer and Chairman of the Board of Directors - $1,019,718 (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 nine month period ended March 31, 2013, in general and administrative expenses is $440,798 (2012 - $424,000) in fees paid and accrued to directors and officers of the Company. An amount of $211,500 (2012 - $211,500) was paid to the Company CEO.

Board of Directors fees of $72,000 (2012 - $50,000) were accrued. Advisory Board fees of $Nil (2012 - $31,000) were accrued. Chairperson fees of $44,798 (2012 - $19,000) 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 $112,500 (2012 - $112,500) were paid. Professional fees of $55,500 (2012 – $53,250) were paid to the Chief Financial Officer of the Company.

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

See also Notes 6 and 13.

15. SIGNIFICANT CUSTOMER

During the period ended March 31, 2013, 78% (2011 - 61%) of the revenue was generated from one customer.

16. EXPENSE DISCLOSURES

Employee benefits totaling $783,857 (2012 - $865,601) are included in research and development and general and administrative in the amounts of $385,174 (2012 - $474,865) and $398,683 (2012 - $390,736), respectively. Amortization of $203,229 (2012 - $49,363) is included in research and development.

17. SUBSEQUENT EVENTS

On May 6, 2013, the Company announced that, subject to TSX-Venture Exchange (“TSX-V”) acceptance, it has completed a non-brokered private placement of 10,030,000 units of the Company at a price per Unit of $0.10 (the “Units”), for gross proceeds totaling $1,003,000. The price was reserved with the TSX-V.

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 36 months from the closing date. Finder's fees on portions of the placement in the amount of $$87,300 will be paid in Units.

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