Star Navigation Systems Group Ltd.
Management's Discussion and Analysis
For the years ended June 30, 2013 and June 30, 2012

1. Date – October 28, 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 years ended June 30, 2013 and June 30, 2012 and should be read in conjunction with the consolidated audited financial statements for the years ended June 30, 2013 and June 30, 2012. Amounts are reported in Canadian dollars based upon the financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). Information contained herein is presented as at October 28, 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, such as are still being experienced in Egypt, cultural differences, differing legal systems and business practices, and the significant added expense of travel and accommodation for Company personnel required to be onsite for sales, testing and installation duties. The Company endeavours to mitigate these risks as much as reasonably possible through the judicious use of secure financial instruments, experienced local sales agents and coordinated travel arrangements. Ongoing political events in the Middle East have resulted in some restriction of the Company's efforts there, although the Company recorded a sale to MidWest (Egypt) Airlines ("MidWest"). The Company has been advised by MidWest that they have made changes to their fleet and the aircraft originally targeted for installation is no longer available. MidWest will advise the Company when an alternative aircraft becomes available. All other terms and conditions of the contract remain in force. In addition, other potential sales opportunities in Egypt have been impaired due to the current political unrest. There is no proposed date for removal of those controls at this time and further potential sales are not possible until controls are removed. 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 ("STAR-A.D.S.™") being offered by Paradigm and the Company to the commercial aviation community. This agreement is in the process of being substantially altered in order to better reflect the respective individual strengths of each party. (See Subsequent Events).

The Company's efforts are primarily focused on the Middle East, North America and Europe at the present time. The Company is in the process of making significant changes in the manner in which the STAR-A.D.S.™ system is marketed and sold.

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

If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law.

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

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

2. General Development of the Business

History

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

In June, 2011, Star entered into an agreement with Paradigm, a unit of Astrium Services (part of EADS) whereby Paradigm would provide communications, ground station and client interface services as well as market and sell the airborne data system worldwide. The agreement provided for the combination of Star's STAR-ISMS® technology with Paradigm's experience in secure satellite communication, data management centers, data handling, service delivery and satellite operation. (See Subsequent Events).

Capability of the STAR-ISMS® G2 System

The current system has been designed to provide real time, on board analyzed data over the Iridium satellite network. If the data indicates exceedance of the customer specified parameter limits for a particular system or function, and the issue suggests a significant issue, then the Iridium module is activated and a continuous stream of data is sent down for a predetermined time covering data generated both before and after the triggering event. If the exceedance is more routine, it is either reported immediately on an "Alert" basis, or is noted for further action in the post flight reporting.

The system sends the aircraft position at pre-determined intervals via the Data Management Centre ("DMC"). As the information is sent from the aircraft, senior management and critical ground crew are updated on their computer screens or PDA's as necessary. This allows 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 ability to access data analyzed in real time during a flight will allow the airlines to make the right decisions for safety, economy and cost avoidance. In addition, the system provides for the supply of detailed follow-up reporting in a more timely fashion than any other system on the market, thus allowing the overall management of the fleet to be optimized.

In addition, utilizing data collected, Star's fuel management system allows the operator to refine operational procedures so as to optimize fuel usage, generating direct, bottom-line savings to the airline. The STAR-ISMS® G2 system has completed final system design review and is now ready for commercial service.

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, 2013, 2012 and 2011.

	Year ended June 30, 2013	**Year ended June 30, 2012**	**Year ended June 30, 2011**
Total revenues	$115,717	$72,672	$98,591
Net Loss	$(2,919,007)	$(3,059,143)	$(3,758,212)
Total assets	$1,403,867	$1,189,360	$2,734,324
Total long term liabilities	$28,738	$65,167	$Nil
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, 2013 the Company sustained a loss of $2,919,007 compared to $3,059,143 for 2012. Losses for the last 3 years (2013, 2012 and 2011) are averaging $3,245,454 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 products into the commercial market.

Anticipated sales have not been realized to date, although the Company has taken steps expected to correct this.

As can be seen from the table above, total assets for the year ended 2013 have increased slightly over the 2012 levels due to an increasing cash balance. The Company will be in a position by October 2013 where it will have to complete an equity raise to continue operations. The Company completed a private placement in September 2012 and May 2013 that raised $2,088,000 and $1,003,000 respectively. The Company also completed a debt conversion in November 2012 which has reduced the Company's debt load by $204,037 in total.

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 STAR-A.D.S.™, 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 of June 30, 2013 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 will continue to sustain losses as it pushes towards full commercialization. The Company completed two private placements in fiscal 2013, raising $3,091,000. This has allowed the Company to operate while it initiates the STAR-A.D.S.™ rollout. (See Operational Milestones). The cash balance at June 30, 2013 was $405,603 compared to $67,262 at June 30, 2012. Assets are up since June 30, 2012 driven mainly by the private placements completed in 2013.

Accounts receivable are down by $22,440 as a result of collection of outstanding receivables. Prepaid expenses are similar to 2012.

Inventory is up by $29,163 as Star completed an initial sale to Paradigm. Star now has multiple units of its STAR-ISMS® in stock and ready for sale. Property and equipment has decreased by the depreciation recorded for the year ended June 30, 2013.

There were minor Property and Equipment, Development and Other asset additions in this fiscal year.

Accounts payable and accrued liabilities are down by $207,949 from June 30, 2012 as the Company has used the money it raised in 2013 to reduce its debt burden.

Amounts due to related parties have dropped by $255,891 from June 30, 2012 due to certain of the Company directors, officers and former Strategic Advisory Board members utilizing some of their accrued compensation in order to participate in the private placements in September 2012 and May 2013 and the shares for debt conversion in November 2012.

The Company's share capital has risen in fiscal 2013 as common shares outstanding have gone up from 207,240,078 at June 30, 2012 to 249,211,966 at June 30, 2013. The Company has completed private placements in fiscal 2013 totaling $3,091,000. It also completed a shares for debt transaction that reduced the Company's debt by $204,037 and added a further 2,550,463 common shares.

Results of operations continue to show losses. However, the Company has now moved from a "development stage" company to a "commercial" company with a fully viable product 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 STAR-A.D.S.™ service.

The Company and Paradigm completed the first STAR-A.D.S.™ Pilot project with Air North, which began in August 2012. Input from Air North was very valuable and resulted in further enhancements being made to the functionality and utility of the STAR-A.D.S.™, which is now market ready. Air North advised the Company that, given the present composition of their fleet, the full STAR-A.D.S.™ offering of real-time in flight monitoring and detailed reporting of all flights was not appropriate to their current requirements.

The Company entered into agreements with respect to sales of its STAR-ISMS® to MidWest Airlines. 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 Company has been advised by MidWest that they have made changes to their fleet and the aircraft originally targeted for installation is no longer available. MidWest will advise the Company when an alternative aircraft becomes available. All other terms and conditions of the contract remain in force.

The Company's AS9100 Rev C: ISO 9001:2008 annual audit by the BSI Group Canada Inc. ("BSI') (the certifying organization) in January 2013 was successfully completed and the Company was recommended for continued certification. AS9100 Rev. "C" is the international quality management system standard for Aircraft, Space and Defense ("AS&D") industry

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.

To-date there has been good 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. The Company now expects to receive the License in the near future as the Company's system cannot be utilized in the absence of such approval. In anticipation of such approval, negotiations are currently underway with several airlines in India

Operational Milestones

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

- The STAR-A.D.S.™ team signed an agreement with Air North to participate in a Pilot Project demonstrating the capabilities of the STAR-A.D.S. ™ on one of their Boeing 737-500 aircraft. Enhancements to the utility and functionality of the STAR-A.D.S.™ system, including the types of reports generated by the STAR-A.D.S.™ suggested by Air North, have been incorporated into the service.

- Discussions continue with Pakistan International Airlines Corporation ("PIA"). However, the political situation in Pakistan, together with recent management changes at PIA make a sale unlikely in the short to medium term.

- In China, due to delays in the COMAC 919 project, Star has not been particularly active in that area but continues to maintain and enhance its relationships with the project managers in China. There has been no change to the status of this project at June 30, 2013. Star is also pursuing other oppourtunities in the general aviation segment in China.

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

- The Company reorganized its R&D department, streamlined its management reporting organization and added additional research depth.

- Additional focus was placed on sales support of the STAR-A.D.S.™ system by the Company.

Outlook

Star's Management looks to achieve the following for the fiscal year ending June 30, 2014:

- Continue to execute the commercialization of the STAR-A.D.S.™ and develop new business opportunities in the field of aircraft critical data collection, analysis and transmission.

- Continue to develop the capability of its ground station and data management services.

- Continue to develop and refine the military version of the STAR-ISMS® system currently under development.

- Continue to develop and refine the medical monitoring aspects of the STAR-ISMS®.

- Continue to develop the next generation STAR-ISMS® G3 unit, which is expected to be smaller, lighter and significantly more efficient.

- Continue to support the bid to become part of the COMAC 919 project in China. Expand contacts in China to include the general aviation sector.

- Continue R&D efforts to add functionality with respect to complete data download at the end of flight. Continuing to update the functionality and utility of the STAR-ISMS® system in order to compete in a wider range of markets and to service more sophisticated requirements.

- Continue to 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-A.D.S.™,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	**2013**	**2013**	**2012**	**2012**
Period Ending	**June 30**	**March 31**	**December 31**	**September 30**
Revenue	(28,764)	10,498	16,447	117,536
Working Capital/(Deficit)	(593,019)	(891,820)	(319,144)	179,639
Expenses	918,234	655,440	754,910	706,589
Net Loss	(946,998)	(644,942)	(738,463)	(588,604)

Net Loss (per Share)	(0.01)	(0.003)	(0.003)	(0.0028)

	2012	2012	2011	2011
Period Ending	**June 30**	**March 31**	**December 31**	**September 30**
Revenue	15,940	18,841	19,623	18,268
Working Capital/(Deficit)	(1,403,649)	(586,787)	(1,474,554)	(819,142)
Expenses	707,642	789,475	830,288	826,206
Net Loss	(691,702)	(752,206)	(810,607)	(804,628)
Net Loss (per Share)	(0.004)	(0.003)	(0.004)	(0.004)

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

- Low and inconsistent revenue generation throughout the years.
- Working capital for 2013 has reverted back to a deficit position 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 for the last eight quarters have remained consistent averaging $773,542 per quarter.
- Net losses are averaging $747,269 per quarter for the last eight quarters due to research and development costs and no revenue generation.
- For fiscal 2013 working capital remained in a negative position for the whole fiscal year even as the Company completed two private placements.
- Net losses for the years ending June 30, 2013 and June 30, 2012 were $2,919,007 and $3,059,143.

RESULTS OF OPERATIONS
Comparison of the years ended June 30, 2013 and June 30, 2012.

The following commentary compares the audited consolidated financial results for the years ended June 30, 2013 and June 30, 2012.

Overview:

The Company sustained a loss of $2,919,007 for the year ended June 30, 2013 vs. $3,059,143 for the year ended June 30, 2012. The decrease in loss is due to many variances including, but not limited to, increases/decreases in R&D costs, general and administration ("G&A") costs, marketing and promotional costs ("M&P"), foreign exchange costs and stock-based compensation.

The Company is confident that it will continue to build on increased market awareness as a result of its STAR-A.D.S.™ marketing initiatives 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 year ended June 30, 2013 have increased by $43,045 over the same period in 2012. This is a result of a sale of 3 STAR-ISMS® units to Paradigm.

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

The Company did not sell any of its STAR-ISMS® Lite units during the year ended June 30, 2013. The inconsistency in sales highlights the Company's push to market of its STAR-ISMS®.

Cost of Sales:

Cost of Sales for the year ended June 30, 2013 increased as the cost of the Air North pilot project were higher than expected. In the same period for 2012 there were no STAR-ISMS® sales.

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:

Year ended June 30,					
	2013		2012		Variance
Total R&D expenses	881,724		1,038,675		(156,951)
Amortization expense	255,126		130,633		124,493
R&D Wages	551,646		674,010		(122,364)
Material costs	27,500		52,611		(25,111)
Research & development costs	25,138		155,980		(130,842)
STC costs	10,150		0		10,150
Travel costs	12,164		25,441		(13,277)

R&D expenses have increased by $156,951 for the year ended June 30, 2013 over June 30, 2012. This change was due to increases in amortization and decreases in project costs and wages.

Amortization has increased on its testing equipment and a new computer server purchased in 2012. Project costs have decreased as the Company obtained the necessary STC for its STAR-A.D.S.™ pilot project with Air North in Q2.

Wages dropped by $122,364 as the Company has only replaced the Chief Technology Officer ("CTO") position as of March 2013. Some of this decrease was offset due to salary increases in January 2013.

General and Administrative:

Year ended June 30,					
	2013		2012		Variance
Total G&A expenses	**1,445,615**		**1,496,229**		**(50,614)**
Board/Advisory/Committee fees	150,192		114,167		36,025
Consultant cost	58,317		30,000		28,317
Bad debts	52,500		(5,175)		57,675
Insurance	78,724		73,546		5,178
Professional fees	213,923		377,429		(163,506)
Wages	536,745		526,419		10,326
Bank charges & interest	31,961		8,279		23,682
Other	323,253		371,564		(48,311)

G&A expenses have decreased by $50,614 for the year ended June 30, 2013 over June 30, 2012. This decrease is a result of various increases and decreases in several expenses in the G&A category.

Board/Committee/Advisory fees have increased this year over last by $36,025. Fees accrued to Board of Director members have increased by $37,000 as the Company had 4 non-executive board members for the full 2013 year whereas in 2012, it only had three. The Strategic Advisory Board ("SAB") fees are nil for this year as the Company disbanded the SAB effective January 31, 2012.

Committee Chairperson accrued fees have increased by $25,192 as the Company now has a Compensation and Corporate Governance chair and a Strategic Planning and Human Resources chair as well as a Corporate Secretary in 2013.

G&A consulting costs have increased by $28,317 in 2013. In 2012 the Company engaged the services of an executive familiar with the Company to aid it in facilitating talks with CMC. This consultant earns a fee of $3,000 per month. Fees have also been paid for services rendered by a Director of the Company for participating on the SMC. As well, the Company paid a fee to a executive search firm of $15,000 for services rendered in 2013.

Professional fees have decreased by $163,506 over 2012. This drop was driven by a decrease in the firm's audit and audit related costs as well as a $139,786 drop in legal fees. The Company spent considerable fees with a firm in 2012 to obtain an opinion on patent infringement issues. As well, fees related to mediation costs for a former employee were incurred in 2012.

General and Administrative (Cont'd)

Interest charges have risen in 2013 as the Company has now entered into an agreement with the CEO of the Company to accrue interest monthly at the rate of Business Prime Rate + 2% on a daily basis of the outstanding balance of monies owed to the CEO.

Wages have increased minimally in 2013. The Quality Manager of the Company resigned in March of 2013 and was not replaced.

Other expenses have decreased by a combined $48,311 over 2012. The decreases were minimal in amount.

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:

	Year ended June 30,				
	2013		2012		Variance
Total Marketing expenses	270,223		401,618		(131,395)
Investor relations	45,000		34,546		10,454
Travel costs	31,498		95,031		(63,533)
Consultant costs	193,125		258,859		(65,734)
Other costs	600		13,182		(12,582)

For the year ended June 30, 2013 M&P expenses have decreased by $131,395 over the same period in 2012. Consulting costs have been reduced by $65,734 as the Company has cut back on the number of consultants it has engaged in this area and corresponding to this reduction in consultants, travel costs have been reduced by $63,533. Investor relation ("IR") costs are up by $10,454 as the Company had just engaged a new investor relations firm in January 2013 and did not have one for the first two quarters of fiscal 2013. The Company had an IR firm representing them in the first nine months of 2011 but that contract was terminated at December 31, 2011.

The Company has focused mostly on getting the STAR-A.D.S.™ 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 now that the STAR-A.D.S. pilot project has been successfully completed.

Stock based compensation:

The Company has a stock option plan (the "Plan") for employees, officers, directors and consultants performing special technical or other services for the Company ("Optionees"). During 2010, the Company amended the Plan whereby the number of common shares to be issued under the Plan is not to exceed 30,000,000 (2009 - 19,589,684) common shares. In 2011, the shareholders approved an increase in the number of shares that could be issued under the Plan to 35,000,000. To date, application for regulatory approval for that increase has not been made but is expected within the current quarter.

The Company applies a fair value based method of accounting to all stock-based payments. Accordingly, stock-based payments for employees are measured at the fair value of the equity instruments issued and stock-based payments for non-employees are measured at the fair value of the consideration received or liabilities incurred, whichever is more reliably measurable.

Each tranche is considered a separate award with its own vesting period and fair value.

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

During the year ended June 30, 2013 stock-based compensation amounted to $352,532 vs. $193,273 in 2012. The increase in stock-based compensation was due to the changeover to IFRS and the issuance of stock options to employees and consultants. 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 yearend exchange rate. Non-monetary assets and liabilities as well as revenue and expense transactions denominated in foreign currencies are translated at the rate prevailing at the time of the transaction. Translation gain or loss adjustments are recognized in the period in which they occur. The Company transacts its sales and equipment purchases in US dollars. At the year ended June 30, 2013, the Company held $84,047 (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 $405,603 at June 30, 2013 compared to a cash balance of $67,262 at June 30, 2012. The Company's cash balance was bolstered throughout the year by the completion of two non-brokered private placements for gross proceeds totaling $2,088,000 and $1,003,000 completed in September 2012 and May 2013. 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 $593,019 at the year ended June 30, 2013 compared to a working capital deficiency of $1,403,649 at June 30, 2012.

Liquidity and Capital Resources (Cont'd)

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 June 30, 2013 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)	249,211,966
Share Purchase Warrants (ii)	108,745,005 (exercise prices ranging from $0.20 cents to $0.50)
Stock Options	14,569,900 (exercise prices ranging from $0.10 to $0.32 with expiry dates up to February 14, 2018 and various graded vesting provisions).

(i) 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.

(ii) 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.

Outstanding Share Data (Cont'd)

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, reduced from $0.30.

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, reduced from $0.30.

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

Outstanding Share Data (Cont'd)

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.

(v) On May 6, 2013, the Company announced that it had 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 consisted of one common share and one common share purchase warrant (a "Warrant"). Each Warrant entitled 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 were paid in Units. The net proceeds of the placement were used for research and development, marketing and general working capital purposes.

Significant Accounting Policies

The audited consolidated financial statements are prepared in accordance with IFRS and follow the same accounting policies and methods of their application as the most recent audited consolidated financial statements for the year ended June 30, 2012.

These audited 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 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.

Significant Accounting Policies (Cont'd)

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.

(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.

(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.

(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.

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.

Accounting Estimates and Judgements (Cont'd)

These estimates and assumptions notably relate to the amortization of and measurement of impairment of property and equipment and development and other assets, stock-based compensation, warrants, and deferred income taxes. The 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®.

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 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 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 owing to Directors are non-interest bearing and unsecured.

At June 30, 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, CTO and CFO.

The following balances are due to related parties as of June 30, 2013:

Due to Directors - $16,000 (2012 - $156,000), Due to Advisory Board members - $Nil (2012 - $92,676) and Due to Committee Chairpersons - $16,000 (2012 - $30,000). Due to Chief Technology Officer and member of the Board of Directors (the individual was terminated from his position as Chief Technology Officer effective February 1, 2012 and resigned as a director of the Company on April 13, 2012) - $Nil (2012 - $6,000), which amount resulted from the accrual of salary, and Due to Chief Executive Officer and Chairman of the Board of Directors - $1,017,392 (2012 – $990,749).

Related Party Transactions (Cont'd)

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

Included in the statement of comprehensive loss for the year ended June 30, 2013, in general and administrative expenses is $582,192 (2012 - $690,167) in fees paid and accrued to directors and officers of the Company. An amount of $282,000 in respect of salary (2012 - $282,000) was paid to the Company CEO. As well, a total of $25,143 (2012 – Nil) was paid to the Chief Executive Officer regarding interest on the outstanding loan owed to him. The rate of interest paid was Bank of Canada prime + 2%.

Also included in the general and administrative total of $582,192 (2012 - $690,167) were Board of Directors fees of $96,000 (2012 - $59,000) were accrued. Advisory Board fees of $5,000 (2012 - $31,167) were accrued. Chairperson fees of $49,192 (2012 - $18,000) were accrued and paid. Included in research and development is $Nil (2012 - $107,000) in fees paid and accrued to the Chief Technology Officer and a director of the Company (the individual was terminated from his position as 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 $150,000 (2012 - $150,000) were paid. Professional fees of $75,000 (2012 – $70,000) were paid to the Chief Financial Officer of the Company.

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

See also Notes 6, 9 and 15(c) of the June 30, 2013 audited consolidated financial statements.

Key management personnel are comprised of the Company's directors and executive officers. In addition to their salaries, key management personnel also participate in the Company's share option program (Note 11).

	2013	2012
Salaries and wages	507,500	$618,080
Stock-based compensation	76,720	15,483
Total	584,220	$633,563

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 Instruments and Other Instruments (Cont'd)

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.

Financial Instruments and Other Instruments (Cont'd)

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 year ended June 30, 2013.

Subsequent Events

Paradigm

On June 22, 2011, the Company entered into an agreement (the "June 22 Agreement") with Paradigm Services Limited ("Paradigm"), part of the European Aeronautic Defense and Space Company EADS N.V. ("EADS") group of companies. The purpose of the June 22 Agreement was to utilize the respective strengths of each party in order to market the Company's In-Flight Safety Monitoring System ("STAR-ISMS®") to the commercial aviation community as part of an airborne data service ("STAR-A.D.S.™") being offered by Paradigm and the Company.

Over the past two years, it has become apparent that the original division of responsibilities under the June 22 Agreement was not providing the anticipated results. Paradigm's main attributes lie in secure, satellite communications and data management. Star, on the other hand, has extensive experience with real-time, in-flight data collection, analysis, management and cost containment as well as a worldwide network of aviation sales professionals and consultants.

By way of an agreement signed October 18, 2013, Paradigm will restrict its involvement with the STAR-A.D.S.™ system to the provision of communications services. Star, being intimately familiar with the STAR-ISMS® system, customization to operator needs and the benefits of its applications towards the optimization of airline operations, will assume responsibility for sales and marketing, as well as Ground Station operations. The revenue allocations provided for in the June 22 Agreement have been adjusted accordingly.

International Communications Group, Inc. ("I.C.G.")

Subsequent to year end, the Company entered into reciprocal dealer agreements with ICG whereby each party was entitled to market and sell the products of the other. ICG (www.icg.aero). The Company feels that there is significant synergy between the two firms and that their product suites are complimentary.

Subsequent Events (Cont'd)

Private Placement

On October 18, 2013, the Company announced that, subject to TSX-Venture Exchange ("TSX-V") acceptance, that it has completed a non-brokered private placement of 11,250,000 units of the Company at a price per Unit of $0.08 (the "Units"), for gross proceeds totaling $900,000. 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 24 months from the closing date. Finder's fees on portions of the placement in the amount of $90,000 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.

Contingency

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

Risk Factors and Risk Management

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

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.

Risk Factors and Risk Management (Cont'd)

Operating expenses are generally stable but will vary depending on required staffing levels, equipment update and replacement, sales activity and required R&D activities. These expense items are pre-revenue in nature. As the Company is now in a position to offer a fully developed STAR-A.D.S. system to the commercial aviation world, the demands upon its R&D department are increasing, resulting in the need to hire additional staff in this area.

Also, as the Company is determined to protect its Intellectual Property, cases of potential infringement of patent are not predictable and the legal costs involved can be substantial. While all eventualities cannot be predicted, the Company maintains a sufficient level of funds to cover most contingencies.

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

A large percentage of the Company's sales initiatives prior to STAR-A.D.S. involved non-North American customers, with the attendant travel and time requirements. Amongst other initiatives such as the STAR-A.D.S. service, the Company is 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, and the current political unrest in Egypt, regulatory matters can delay the sales process to varying degrees. The Company relies upon entities such as Transport Canada ("TC") to issue approvals such as STC's, required whenever the Company is installing equipment aboard an aircraft. While TC works hard to provide excellent service, this is not always the case around the world.

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

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

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

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

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

It should be noted that while the Company's CEO and CFO believe that the Company's DC&P provide a reasonable level of assurance that they are effective, they do not expect that the DC&P or ICFR will prevent all errors or fraud. There have been no material changes to the internal controls of the Company for the year ended June 30, 2013.