

# *Management's Discussion and Analysis of Financial Condition and Operations*

## **Basis of Presentation and Statement of Compliance with IFRS**

**Starrex Mining Corporation Ltd.** ("Company") has prepared its financial statements, and all financial disclosures in this document, in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The accounting policies, which are detailed in Note 3 to the Financial Statements as at 31 December 2012, have been applied consistently to all periods presented in those financial statements.

The financial statements have been prepared on a historical cost basis except for certain financial instruments that have been measured at fair value. In addition, the financial statements have been prepared using the accrual basis of accounting except for cash flow information.

This MD&A should be read in conjunction with our audited annual financial statements as at and for the period ending 31 December 2012, which have been prepared using IFRS, and the provisions of National Instrument 51-102. Copies of all relevant financial documents, including interim Company filings to date, may also be referenced on the regulatory filings website -- [www.SEDAR.com](http://www.SEDAR.com). This MD&A has been prepared as at 29 May 2013.

## **Company Overview**

Your Company Management is currently reviewing, and is continuing to review and evaluate, unsolicited merger and/or acquisition (M&A) and reverse take-over (RTO) transactions -- in both the diverse resource and industrial business sectors.

The continuing, and even increasing, third party interest in a Starrex proposal is largely based on the required securities regulatory timing, costs and general difficulties in obtaining alternative private or public financing by way of initial public stock offerings or private equity placements pursuant to initial prospectuses and/or offering circulars governing new financings by third parties, with special emphasis being placed on the currently problematic financial market uncertainties.

Management's intent continues to stress that in a change-in-control or comparable transaction the Company's then current Shareholders will retain a meaningful residual equity interest in the successor business entity. This policy requires that we ensure that intensive pre-deal negotiations, and our due diligence investigations, include the participation of all principals, both management and financial, of the interested third party entities.

Your Management will ensure that the following corporate valuation criteria will be considered among the primary Starrex corporate assets of tangible value -- as is our Stock Exchange-listed Company which has remained its good standing for many years.

In addition to our free cash position -- Starrex also brings to the negotiation table the following tangible and intangible corporate assets; namely:

- The Starrex modest, and entirely “clean” capitalization -- comprised exclusively of approximately 3.4- million outstanding common shares, fully diluted.
- No senior or dilutive Starrex securities are potentially in issue -- or currently committed for issue -- except for a modest aggregate of Treasury shares that may be reserved for Directors' incentive stock options which may be granted from time to time.
- Widespread North American stakeholder distribution -- totaling up to about 1,500 shareholders -- including multiple accounts held by beneficial holder at many major institutional intermediaries, primarily international financial and brokerage firms.
- Treasury cash and equivalent hard assets, largely cash, aggregating about \$750,000.
- A corporate history of successful gold mining operations (profitable principal interest in Canadian gold mine operation from 1986 through about 2000).
- Starrex has maintained its regulatory good standing position through a Toronto Stock Exchange (currently Venture -- NEX Board) listing since our 1982 incorporation.

The Company's common shares now are listed on the NEX Board of the **TSX Venture Exchange (Symbol : STX.H)** -- and continues to maintain non-registered listing status on the **U.S. OTC BB (Symbol : STXMF)**.

The Company's current assets and business operations largely comprise, in addition to cash, generally non-operating income-producing investments and equity positions in diverse public and private companies, both related and unrelated, as may be determined by the Directors from time to time -- which will be maintained while Management continues to pursue an acceptable M&A or RTO transaction, as described above. Though Management remains optimistic that an advantageous transaction will be concluded within a reasonable time frame (see “Significant Current Events and Status” section), no conclusion can presently be foreseen or reported as to the possible timing, or successful outcome, or otherwise, of any ongoing current negotiations that can result in the closing of a transaction.

## **Significant Current Events and Status**

### **Other M&A Transaction Negotiations**

Management is currently considering, as ongoing negotiations remain in progress, an M&A/RTO transaction with an established research and development company that has worked for more than 12 years on a proprietary power technology currently planned for a multi-product launch in mid to late 2013. The operating technology comprises proprietary magnesium air cells that create an electro-chemical reaction with the unique ability to produce power without harmful toxins or disposal and related concerns that limit the broad utility of conventional battery technologies. The key advantage of this patented power technology pertains to its ability to provide full power upon demand, despite the unit lying dormant until the power is needed. The system is claimed to be cost effective and environmentally benign, with efficiencies approaching 80%. Residual waste products are limited and readily disposable without detrimental environmental reactions or costs.

Additional proposals in two unique and innovative new energy sectors also remain under evaluation, due diligence reviews and negotiation. Several additional business offers are in the early phases of consideration by Management.

### **Financial Condition**

During the period under review (the three months ended 31 March 2013), the Company's current asset position declined to \$775,000 from \$795,000 at the prior year-end, reflecting generally modest

expenditures to cover general office expenses and due diligence investigation costs. Aside from a long term loan from a related party, which is unsecured and non-interest bearing, accounts payable comprising routine office operating expenses decreased from \$17,000 at the prior year-end to \$15,000 currently. Such expenditures for current operating and corporate overhead requirements vary modestly for each reporting period depending primarily on costs of due diligence investigations required for proposed third party M&A and RTO transactions under consideration by Management, as described under the "Company Overview" section of this MD&A.

### **Tambao Mining Project**

In late 2005, Starrex acquired for a nominal consideration, by way of divestment from another company, a controlling interest in the Tambao (Burkina Faso) manganese project which has remained, to our best knowledge, in a care-and-maintenance status since the late 1990s.

This manganese mining prospect was first acquired and held under a 1992 Convention (the published Government Agreement document) entered into with the Government of Burkina Faso. High fuel and energy costs continue to make commercial Tambao mining operations uneconomic despite recently improved, but very volatile, manganese ore market prices. The extended shutdown of Tambao's mining development has made the legal status of the mining rights granted under the 1992 Convention uncertain and subject to adverse Government decisions in the absence of our firm commitment to adequately finance a timely operating budget and commercial mining plan. Currently, the legal status of this project remains uncertain and without tangible asset value attributable to Starrex.

### **Nominal Starrex Share Valuation**

Reflecting the approximately 3.4-million Starrex common shares (fully diluted) currently outstanding, each share has a nominal value, largely in cash, relatively about its recent market trading price -- which does not include the additional market valuation that may be attributed to our modest capitalization; to our seasoned (over 25 years) corporate position as a Stock Exchange-listed security -- to our widely distributed North American shareholder base -- and to our significant free Treasury cash, and cash equivalents, financial condition -- as more particularly described under the "Company Overview" section of this MD&A.

### **Overview of Financial Performance**

During the period under review (the three months ended 31 March 2013), the Company has maintained its working and operating capital position materially unchanged -- which is currently held largely in cash, short term Chartered bank-issued financial instruments, and other cash-equivalent securities. Operating expenses during the period under review remained largely limited to basic administrative overhead costs, including due diligence investigations, which only nominally impact the Company's cash position on an annual basis.

### **Results of Operations**

During the period under review -- investment income remained nominal due to the continuing low market interest rate environment for Canadian Government and Chartered Bank securities. Revenue, largely investment income, for the period under review increased to \$1,358, from last year's \$1,325. Operating and administration expenses for the period under review aggregated \$15,000, compared with \$17,000 last year. The expenses for each period were largely attributable to general office costs and the personnel costs of due diligence investigations incurred during several ongoing new business negotiations and investigations referred to in the "Company Overview" section of this MD&A. The reported net income/loss for the current and last year's periods was nil.

### **Liquidity and Capital Resources**

At the end of the period under review, current assets aggregated \$775,000, a modest decline from the \$795,000 reported at the prior year-end. Current liabilities for the current reporting period was \$319,000, compared with \$326,000 at the end of the prior period. The aggregates largely comprised a loan (\$234,826) payable to a related party and which is not subject to interest accruals or a firm repayment date and a contested GST/HST tax of \$18,000 as payable according to the Canada Revenue Agency.

### **Cash Flow Statement**

Taking into account the variable maturities and timing of short term Government and Chartered Bank fixed income investments which comprised the primary free cash asset position of the Company at the end of each period under review, the cash flow position of the Company remained substantially unchanged compared with the prior year end.

### **Share Capital Analysis**

As at the date of this MD&A, the share capital of the Company continued to comprise exclusively about 3.4-million common shares, substantially unchanged for several years. There are no dilutive securities outstanding or committed for issue, including, without limitation, senior or convertible securities and share purchase warrants or options requiring the future issuance of new Company share capital.

### **Accounting Policies**

The Company has accepted and employs the now mandated IFRS accounting policy on reporting its financial condition in accordance with IFRS standards, with all amounts stated in Canadian dollars. The ongoing significant accounting policies are more particularly described herein and in those provided with the audited Financial Statements for the year ending 31 December 2012.

### **Quarterly Information**

Due to the passive status of the Company's limited state of its business activities, comparisons between the Company's current period under review and the 8 prior quarterly periods are not considered meaningful.

### **Segmented Information**

The statements and projections herein are limited to one reportable operating segment which, for the purposes of this MD&A, is limited to the Company's presently largely passive investment positions. There is no current need to differentiate between geographic areas of business operations until more material expenditures or investments are required from the Company for business activities which will require the commitment of material Company cash resources in different businesses or for clearly differentiated purposes in different geographic or political jurisdictions.

### **Use of Financial Instruments**

The Company has not entered into any conventional or other financial instruments designed to minimize its investment risk, currency risk or commodity risk. No off-balance sheet arrangements have been established nor are there any pending plans to do so. The limited scale of the Company's current and foreseeable operations does not warrant consideration of any special financial undertakings or instruments.

### **Transactions with Related Parties**

The Company's related party transactions deal exclusively with routine, intermittent payments of modest administrative fees for essential corporate services rendered by the Company's Chief Executive Officer and former Chief Financial Officer, respectively. The fees are generally paid annually and are more particularly described in the Notes to the audited Financial Statements for the year ending 31 December 2012. The remuneration to Directors is based on payments of \$250 for each

Director's Meeting attended in person or by way of telephone conference calls, plus out-of-pocket expenses incurred in connection with their attendance at such Meetings, or as otherwise incurred in furtherance of their duties as Directors. No Director or corporate officer is currently indebted to the Company nor have they been indebted to the Company during 2012, and during the 2013 fiscal year to date. The Company has no pension plan for Directors, corporate officers or employees.

## **Capital Disclosures**

The Company's objectives when managing capital is to maintain its ability to continue as a going concern in order to provide return for Shareholders and benefits for other Stakeholders and to ensure sufficient resources are available to meet day-to-day operating management.

The Company considers the items included in Shareholder's equity as capital. The Company manages its capital structure and will make adjustments to it, if and when necessary, in order to have funds available to support its corporate activities.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the modest current business and financial size of the Company, is reasonable.

The Company is not subject to externally imposed capital requirements and there has been no change in the overall capital risk management strategy during the year.

## **Financial Risk Factors**

The Company is exposed in varying degrees, though considered modest for the size of the Company, to a variety of financial instrument related risks; as follows:

### **Credit Risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is in its cash and cash equivalents. This risk is managed through the use of a major chartered bank which is a high credit quality financial institution as determined by rating agencies.

### **Liquidity Risk**

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available capital in order to meet its liquidity requirements.

### **Market Risk**

The only significant market risk exposure to which the Company is currently exposed is interest rate risk. The Company's exposure to interest rate risk relates to its ability to earn interest income on otherwise inactive cash balances at variable rates. The fair value of the Company's cash and cash equivalents are relatively unaffected by normal changes in short term interest rates.

## **Disclosure Controls and Procedures**

The Company's Chief Executive Officer and Interim Chief Financial Officer ("Disclosure Committee") are responsible for establishing and maintaining the Company's disclosure controls and procedures, including adherence to the Disclosure Policy adopted by the Corporation. The Disclosure Policy requires all staff employees to keep the Disclosure Committee fully apprised of all material information affecting the Company so that the Committee may evaluate and discuss this information and determine the appropriateness and timing for public release, if so decided. Access to such material information by the Disclosure Committee is facilitated by the modest size of the Company's senior management group and the regular communications engaged in between them.

The Disclosure Committee, after evaluating the effectiveness of the Company's disclosure controls and procedures as of the end of the 31 December 2012 annual auditing period, has concluded that the

Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its subsidiaries would have become known to them.

The Company's Disclosure Committee is also responsible for the design of internal controls over financial reporting. The fundamental issue has been determined as ensuring that all transactions are properly authorized and identified and entered into a well designed and clearly understood system on a timely basis to minimize risk of inaccuracy, failure to fairly reflect transactions, failure to fairly record transactions necessary to present financial statements in accordance with generally accepted accounting principles, unauthorized receipts and expenditures, or the inability to provide assurance that unauthorized acquisition or dispositions of assets can be detected.

The relatively small size of the Company and its currently largely inactive status, makes the described identification and authorization process reasonably efficient and is considered an efficient process for reviewing internal controls over financial reporting. To the extent possible, given the Company's modest business operations, and utilizing professional outsourcing for part or most of the process, the internal control procedures provide for the clear separation of duties for receiving, approving, coding and handling of invoices, entering transactions into the accounts, writing cheques and completing and recording wire requests. As of 31 December 2012, the Company's Disclosure Committee had concluded that the Company's system of internal controls is adequate and reasonably comparable to those of issuers of a similar size and largely inactive business nature. There have been no changes during the most recent audited reporting period, being the fiscal year ended 31 December 2012, in the Company's internal controls over its financial reporting that have affected or would reasonably be expected to affect its financial reporting.

### **Critical Accounting Estimates**

The preparation of financial statements requires management to make judgments and estimates that affect the reported amounts of assets and liabilities at the financial reporting date and reported amounts of expenses during the reporting period. Actual outcomes could differ from these judgments and estimates. The financial statements at 31 December 2012 include judgments and estimates which, by their nature, are uncertain. The impacts of such judgments and estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised, and also in future periods when the revision affects both current and future periods

### **Outlook**

The Company will continue to evaluate, for the purpose of entering into an M&A/RTO transaction, diverse equity and investment offering proposals that may involve a corporate change-in-control. Refer to the "Company Overview" section of this MD&A for the status of certain of the Company's current negotiations and policies with respect to certain potential transactions that may receive or are receiving active consideration. Management considers that the Company's "clean" financial condition and its interesting intangible assets (for reference see "Company Overview" section) can profitably be capitalized on by way of a business transaction that can offer tangible growth potential to the prospective joint venture. In-house reviews of all proposed business combinations concentrate on the record of integrity and industry experience of the target company's principals and senior management -- including hard evidence establishing the future management's longer term personal and financial commitments to any future merged entity.

On Behalf of the Board:  
per: S. Donald Moore; President  
29 May 2013

### ***Forward-Looking Statements***

*Certain statements contained or incorporated in this MD&A which deal with the Company's financial condition and operating results, including information, analyses and projections as to future corporate developments which are currently in the planning stage, and on the projected operating financial performance of the Company, constitute forward-looking statements. Such forward-looking statements, made with special reference to the Company's ongoing merger and acquisition negotiations, involve known and unknown risks and uncertainties that could cause actual events and results to differ materially from those estimated or anticipated and which may have been implied or expressed in such forward-looking statements. No conclusions as to the successful outcome of the ongoing and planned business projects and diversification negotiations in which the Company is involved are intended nor implied nor can they be foreseen or predicted prior to definitive corporate announcements as to their outcome.*

*Furthermore, the forward-looking statements contained in this MD&A are made as of the date hereof and the Company does not undertake any obligations to update publicly, or to revise any of the included forward-looking statements, whether as a result of new information, future events, or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.*