

*STARREX MINING  
CORPORATION LTD.*

*THIRD*

*QUARTER REPORT*

*30 SEPTEMBER 2013*

# *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 unaudited condensed interim financial statements for the period ending 30 September 2013, and all financial disclosures in this MD&A 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 audited Financial Statements as at 31 December 2012, have been applied consistently to all periods presented in the unaudited condensed interim financial statements.

The unaudited condensed interim 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 unaudited condensed interim 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 unaudited condensed interim financial statements as at and for the period ending 30 September 2013, 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 November 2013.

## **Company Overview**

Company Management continued to regularly review and evaluate unsolicited merger and/or acquisition (M&A) and reverse take-over (RTO) transactions -- in diverse financial, resource and industrial business sectors.

The continuing interest in a Starrex business combination proposal is largely based on the required securities regulatory timing, and costs to obtain alternative private or public financing by way of initial stock offerings and/or private equity placements. Both financial routes have been difficult to access during the recent financial market uncertainties, and share trading turmoil.

Management’s intent has continued to be to enter into a change-in-control or a comparable transaction. The plan continues to stress the retaining of a meaningful residual equity interest in the successor business entity. This company policy requires intensive due diligence investigations, include the total participation of all principals, both management and financial, of the third party entities involved.

The intent of Management is to ensure that the following criteria are considered among the Starrex corporate assets of tangible value -- as is our Stock Exchange-listed Company which has retained its good standing as such for over 25 years.

In addition to our free cash position -- it is of material interest that Starrex brings to the negotiation table our 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 the modest aggregate of Treasury shares that are reserved for Directors' incentive stock options.
- Widespread North American stakeholder distribution -- aggregating about 1,500 shareholders -- including multiple accounts held by beneficial holders at major international financial and brokerage firms.
- Treasury cash and equivalent hard assets, largely cash, aggregating about \$650,000.
- A corporate history of successful gold mining operations (a profitable 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 trade on the NEX Board of the **TSX Venture Exchange (Symbol : STX.H)** -- and continues to maintain a non-registered listing status on the **U.S. OTC BB (Symbol : STXMF)**.

Your Management is optimistic that an advantageous transaction can be concluded within a reasonable time frame (see “Significant Current Events and Status” section). Although the prospects for a major Company transaction are favorable, no conclusion as to a definitive final agreement can presently be assured.

## **Significant Current Events and Status**

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

Currently under final review and appraisal is a successful U.S. real estate financing company with long experienced management at the helm. The Company’s due diligence process is near completion as is the initial presentation to and commentary thereon, by the TSX Venture review officials. Final action by the Company on this prospective transaction, including applying for the requisite regulatory and Stock Exchange approvals, are targeted for completion late this year.

If the transaction is concluded, Mr. Garrett Clayton will be the President and Chief Executive Officer of Amcap Mortgage Ltd. (“Amcap”). Amcap, is a private company based in Houston, Texas, is a registered Mortgage Banking entity with the Texas Department of Savings and Mortgage Lending. In addition to Texas, Amcap holds licenses to conduct business in ten states and maintains lending offices in Texas, Colorado, New Mexico, Utah, North Dakota and Pennsylvania. Among other financial business activities, Amcap receives applications for, processes and funds mortgages, which meet The U.S. Department of Housing and Urban Development (“HUD”) criteria. Amcap then packages the approved mortgages and sells them to large US banks.

Under Mr. Clayton’s leadership, Amcap has grown from a business of US\$5-million per month to US\$1.2-billion per annum in loan origins. As of the 31 December 2012 audited statements, Amcap had current assets of over US\$69-million, and partner capital of over US\$13-million. Net income aggregated of US\$1.8-million. Amcap currently funds approximately 800 loans a month, which represents over US\$100-million in monthly volume.

The management of Starrex and Amcap have agreed to develop a business within Starrex on a basis similar to that of Amcap. These discussions cover the plan whereby the principals of Amcap will invest, by way of a private placement, approximately Cdn\$800,000 in Starrex common shares.

The Company further proposes to convert its long-term debt in the amount of \$234,826 into an aggregate amount of 939,304 new common shares.

#### **Financial Condition**

During the period under review (the nine-months ended 30 September 2013), the Company's current asset position declined to \$725,000 from \$795,000 at the prior year-end, reflecting generally modest expenditures to cover general office expenses and continuing 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 \$73,000 at the prior year-end to \$55,000 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/or RTO transactions under review by Management, as described under the "Company Overview" section of this MD&A.

#### **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, in the general area of its recent market trading price -- which would 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 compatible 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 nine months ended 30 September 2013), the Company has maintained its working and operating capital position generally unchanged with respect to its capitalization -- which is currently held largely in cash, short term financial deposits, and other cash-equivalent securities. Operating expenses during the period under review remained minimal, and substantially limited to basic administrative overhead costs, including several new project due diligence investigations. The said requirements 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 was substantially unchanged at about \$4,500. Operating and administration expenses for the period under review aggregated \$56,000, compared with \$72,000 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 basic net loss for both the current and prior year's periods was two cents (\$0.02) per share.

#### **Liquidity and Capital Resources**

At the end of the period under review, current assets aggregated \$725,000, a modest decline from the \$795,000 reported at the prior year-end. Current liabilities for the current reporting period were \$308,000, compared with \$326,000 at the prior year-end. 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 payable of about \$18,000 according to the Canada Revenue Agency. A formal appeal to the Canada Revenue Agency concerning the claimed tax as payable has been filed.

## **Cash Flow Statement**

Taking into account the variable maturities and timing of any short term 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 except for the nominal amount of 50,000 Director stock options that may, if exercised, require the issuance of additional common shares.

## **Accounting Policies**

The Company has adopted the now mandated IFRS and employs appropriate accounting policies to facilitate 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 in 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 cash and equivalent 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 Unaudited Interim Financial Statements for the period ending 30 September 2013. 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 generally unaffected by normal changes in short term interest rates.

## **Disclosure Controls and Procedures**

The Company's Chief Executive Officer and the 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, 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. There have been no changes to these controls and procedures subsequent to 31 December 2012.

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 current 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 since 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 unaudited condensed interim financial statements at 30 September 2013 include judgments and estimates which, by their nature, are uncertain. The impacts of such judgments and estimates are pervasive throughout the unaudited condensed interim 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**

Until a form of merger transaction is definitively concluded, the Company will continue to evaluate, for the purpose of entering into a form of 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 the Company's currently advanced negotiations with respect to a potential transaction that is under 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 offers tangible growth potential. In-house reviews of proposed business combinations concentrate on the record of integrity and industry experience of the target company's principals and senior management -- including tangible hard evidence establishing the potential future management's longer term personal and financial commitments to any future business operation.

On Behalf of the Board:  
per: S. Donald Moore; President  
29 November 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.*