



**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**QUARTERLY HIGHLIGHTS**

For the Nine Months Ended September 30, 2019

November 21, 2019

## **GENERAL**

This Management’s Discussion and Analysis – Quarterly Highlights (the “MD&A”) dated as of November 21, 2019, of Starrex International Ltd. (“Starrex” or the “Company”) should be read in conjunction with the Company’s condensed consolidated interim financial statements and related notes as at and for the nine months ended September 30, 2019, and its audited consolidated financial statements for the year ended December 31, 2018 (the “Financial Statements”) that were prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The condensed consolidated interim financial statements and related notes of Starrex have been prepared in accordance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*. The Financial Statements and MD&A are presented in U.S. dollars, unless otherwise noted. Due to rounding, some variances may not reconcile, and analysis of components may not sum to the analysis for the grouped components.

Starrex is traded on the Canadian Securities Exchange under symbol STX and on the OTC QB in the United States under symbol STXMF. Additional information relating to the Company, including the Company’s annual and interim Company filings to date are available under Starrex’s profile on the Canadian System for Electronic Document Analysis and Retrieval (“SEDAR”) at [www.sedar.com](http://www.sedar.com).

## **NOTE TO INVESTOR CONCERNING FORWARD-LOOKING STATEMENTS**

The Company’s public communications may include written or oral forward-looking statements. Statements of this type are included in this MD&A and may be included in other filings with the applicable Canadian regulators, stock exchanges or in other communications. All such statements constitute forward-looking information within the meaning of applicable securities law and are made pursuant to the “safe harbor” provisions of such applicable securities laws. Forward-looking statements may include, but are not limited to, statements about anticipated future events or results, including comments with respect to the Company’s objectives and priorities for 2019 and beyond, strategies or further actions with respect to the Company, including the acquisition or disposition by the Company of businesses or assets, paying down amounts under the Revolving Line of Credit and the Company’s future business operations, financial performance and condition. Forward-looking statements are statements that are predictive in nature, depend upon or refer to future events or conditions and are identified by words such as “will”, “expects”, “anticipates”, “intends”, “plans”, “believes”, “estimates”, or similar expressions concerning matters that are not historical facts. Such statements are based on current expectations of the Company’s management and inherently involve numerous risks and uncertainties, known and unknown, including economic factors. The forward-looking information contained in this MD&A is presented for assisting shareholders in understanding the Company’s business and strategic priorities and objectives as at the periods indicated and may not be appropriate for other purposes.

A number of risks, uncertainties and other factors may cause actual results to differ materially from the forward-looking statements contained in this MD&A, including, among other factors, those referenced in the section entitled “Financial Risk Factors” in the notes to the audited consolidated financial statements for the year ended December 31, 2018.

Forward-looking statements contained in this MD&A are not guarantees of future performance and, while forward-looking statements are based on certain assumptions that the Company considers reasonable, actual events and results could differ materially from those expressed or implied by forward-looking statements made by the Company. Prospective investors are cautioned to consider these and other factors carefully when making decisions with respect to the Company and to not place undue reliance on forward-looking statements. Circumstances affecting the Company may change rapidly. Except as may be expressly required by applicable law, the Company does not undertake any obligation to update publicly or revise any such forward-looking statements, whether because of new information, future events or otherwise. These cautionary statements expressly qualify all forward-looking statements in this MD&A.

## **BUSINESS OVERVIEW**

Starrex International Ltd. (“Starrex”) provides innovative service solutions to mortgage banks and purchasers of residential real estate throughout the United States. Starrex’s 2018 audited consolidated income in the United States was \$9,664,847, a growth of over 294% since 2014.

Business operations are conducted through our wholly-owned subsidiaries, Property Interlink, LLC, a United States Colorado limited liability company (“Property Interlink”), MFI Credit Solutions, LLC (“MFI”), a United States Wyoming limited liability company and Reliable Valuation Service, LLC (“RVS”), a United States Wyoming limited liability company organized in 2018. Reliable Valuation Service’s operating activity began during the first quarter of 2019.

Property Interlink is a licensed appraisal management company (“AMC”) providing oversight and management of the appraisal process between lending institutions and appraisers. Appraisal management companies help consumers obtain unbiased reports for financing and loan servicing. As of September 30, 2019, Property Interlink is active in forty jurisdictions in the United States.

Property Interlink contributes to correlating industry-specific affiliations by actively participating in the Appraisal Institute and other U.S. appraisal organizations.

MFI Credit Solutions, LLC is a licensed credit reporting agency acquired during the first quarter of 2018. MFI is approved and licensed by the three largest credit reporting bureaus in the United States – TransUnion, Equifax and Experian. MFI provides consumer credit reports to mortgage lenders for homebuyers considering the purchase of a new home. MFI Credit Solutions, LLC is governed by the Fair Credit Reporting Act (FCRA), is domiciled in California and has the ability to provide credit reports to borrowers in all states.

Reliable Valuation Service, LLC is a licensed staff appraisal company providing objective and comprehensive evaluations of residential real estate. RVS provides residential appraisals to third parties in the United States. In exchange for these contractual services, the Company charges a specific rate, with additional premiums charged for extenuating circumstances with respect to geographic location of the property and size of the property under review.

From time to time, the mortgage industry will pass new regulations or amend existing regulations that impact the appraisal industry with respect to pricing. When this occurs, the Company’s compliance personnel provide guidance relative to company-wide rate changes that may be needed to ensure financial viability and shareholder value. These changes are discussed and approved by Senior Management, then implemented accordingly.

Company management continues to regularly review and evaluate unsolicited merger and/or acquisition (“M&A”) transactions – in diverse financial business sectors.

## **OVERALL PERFORMANCE and SELECTED QUARTERLY INFORMATION**

During the nine months ended September 30, 2019, the Company incurred a net comprehensive loss of \$402,965 as compared to \$375,179 in net comprehensive loss for the same prior period and had accumulated a deficit of \$6,136,060 (September 30, 2018 - \$5,296,684). Total expenses for the nine months ended September 30, 2019 were \$9,611,085 as compared to \$7,755,985 for the same prior period, an increase of \$1,855,100 directly attributable to the acquisition of MFI Credit Solutions. The Company had total revenues for the nine months ended September 30, 2019 of \$9,215,480 as compared to \$7,380,806 for the same prior period, an increase of \$1,834,674 (see *Overview of Operating Segments* for more detail).

## Starrex International, Ltd.

### Management Discussion & Analysis – Quarterly Highlights Nine Months ended September 30, 2019

Selected two-year quarterly information	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Income	3,418,594	3,336,687	2,460,200	2,284,041	2,586,343	2,684,514	2,109,949	1,815,566
Income/Loss from continuing operations	(129,690)	27,819	(301,094)	(436,411)	(128,927)	(90,145)	(156,107)	(67,887)
Loss and comprehensive loss	(129,690)	27,819	(301,094)	(436,411)	(128,927)	(90,145)	(156,107)	(67,887)
Total assets	3,492,280	3,822,136	3,516,095	3,157,354	3,404,741	3,572,684	3,605,670	2,756,367
Total liabilities	1,788,897	2,263,440	2,586,963	1,940,731	1,915,614	1,954,630	1,783,409	929,499
Shareholders' Equity	1,429,006	1,558,696	929,132	1,216,623	1,489,127	1,618,054	1,822,262	1,826,868
Net loss per share for continuing operations	(0.01)	0.00	(0.02)	(0.03)	(0.01)	(0.01)	(0.01)	(0.00)
Basic and diluted loss per share	(0.01)	0.00	(0.02)	(0.03)	(0.01)	(0.01)	(0.01)	(0.01)

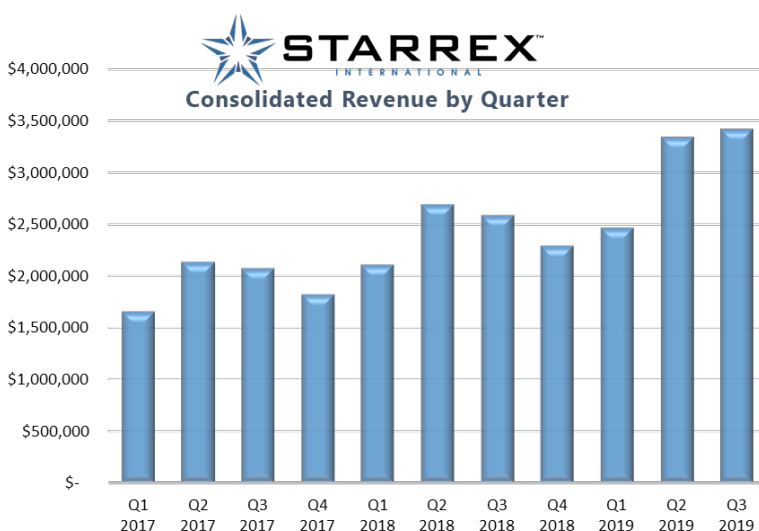
The Company's current asset position as at September 30, 2019 was \$984,073 compared to \$673,386 as at December 31, 2018, an increase of \$310,687. The increase is comprised of an increase in operating capital of \$47,989, an increase in accounts receivable of \$225,830 and an increase in prepaid expenses of \$36,868. As volume increases in both Property Interlink, LLC and MFI Credit Solutions, LLC, accounts receivable increases proportionately. Currently, average days to pay is 22 in Property Interlink, LLC, down from 45 days at the end of the second quarter and 30 in MFI Credit Solutions, LLC, up from 17 at the end of second quarter 2019.

Total assets were \$3,492,280 at the end of the third quarter of 2019 compared to \$3,157,354 as at December 31, 2018. The increase of \$334,926 is primarily a result of the increase in account receivable and the adoption of IFRS 16, *Leases*, effective January 1, 2019. The Company reported \$242,645 in right-of-use assets associated with office space leases in Texas.

Current liabilities were \$1,788,897 at the end of the third quarter 2019 compared to \$1,940,731 as at December 31, 2018, a decrease of \$151,834. This was due to the conversion of the note payable during the second quarter of 2019.

Overall liabilities for the Company increased by \$122,543 from \$1,940,731 as at December 31, 2018 to \$2,063,274 as at September 30, 2019. The increase in total liabilities is attributable to the increase in accounts payable and the lease liabilities of \$274,377 reported after the adoption of IFRS 16, *Leases*, effective January 1, 2019, offset by the decrease in the note payable, discussed above.

## Revenue



Revenue and activity volume fluctuations for the Company closely follows that of the United States housing market, as all three wholly owned subsidiaries are mortgage or real estate-based support companies.

Since the acquisition of MFI Credit Solutions, LLC, revenue has increased 47.97%.

## SUPPLEMENTARY FINANCIAL MEASURES

The following supplementary financial measures are non-GAAP financial measures. These non-GAAP financial measures include the terms “EBITDA” and “Adjusted EBITDA” do not have standardized meanings under IFRS and may not be comparable to other companies’ similar non-GAAP measures. Nonetheless, the Company believes that presenting EBITDA may be of assistance to readers as it presents earnings without depreciation (which is a non-cash expense), taxes (which, in the current year, is not a cash outflow but is an amount recovered from taxing authorities) or interest (which can vary dramatically from company to company depending on how each company is financed). Similarly, the Company believes that presenting Adjusted EBITDA may also be of assistance to readers as it presents earning with further adjustments for accretion, impairment and share-based payments (all of which are non-cash expenses). The Company believes that Adjusted EBITDA presents a clearer presentation of earnings (or loss) both in absolute terms and in terms of cash-flow than earning based on GAAP principles. Accordingly, the Company believes that the presentation on this page – both in narrative form and in table form – may be of assistance to readers to better understand the financial performance of the Company.

The chart below illustrates the Company’s performance based on the above measurements:

	Three months ended		Nine months ended	
	2019	2018	2019	2018
Revenue	3,418,594	2,586,343	9,215,480	7,380,806
Payroll expense	2,205,070	1,716,363	5,994,294	4,923,369
Credit bureau fees	675,426	383,720	1,780,690	971,453
Consumer tax report fees	7,407	8,923	15,367	26,673
General and administrative	411,640	419,986	988,678	1,197,391
Professional fees	72,860	(22,202)	189,007	79,241
Management and corporate services	67,640	82,640	232,920	247,920
Depreciation and amortization	93,845	90,223	324,886	217,857
Shareholder services	3,687	23,090	11,691	31,352
Government, regulatory and filing fees	4,995	4,967	16,312	14,681
Share-based payments	-	-	28,821	25,500
Interest expense	5,714	7,562	28,419	20,548
<b>Total expenses</b>	<b>3,548,284</b>	<b>2,715,272</b>	<b>9,611,085</b>	<b>7,755,985</b>
<b>Net Income</b>	<b>(129,690)</b>	<b>(128,929)</b>	<b>(395,605)</b>	<b>(375,179)</b>
Income Taxes	-	-	7,360	-
<b>Net Comprehensive Loss</b>	<b>(129,690)</b>	<b>(128,929)</b>	<b>(402,965)</b>	<b>(375,179)</b>
Interest expense	5,714	7,562	28,419	20,548
Depreciation and amortization	93,845	90,223	324,886	217,857
Tax expense	-	-	7,360	-
<b>EBITDA</b>	<b>(30,131)</b>	<b>(31,144)</b>	<b>(42,300)</b>	<b>(136,774)</b>
Share-based payment expense	-	-	28,821	25,500
<b>Adjusted EBITDA</b>	<b>(30,131)</b>	<b>(31,144)</b>	<b>(13,479)</b>	<b>(111,274)</b>

## **SUPPLEMENTARY FINANCIAL MEASURES - continued**

Revenue in the Company is comprised of contracts from customers and management fees generated by Property Interlink, LLC and MFI Credit Solutions, LLC. Overall revenue for the nine months ended September 30, 2019 increased by \$1,834,674, with Property Interlink, MFI Credit Solutions and Reliable Valuation Service contributing \$701,318, \$1,106,915 and \$36,085, respectively, over the same period in 2018. Total expenses increased by \$1,855,100 for the nine months ended September 30, 2019, in part, due to the credit bureau and consumer tax fees of \$797,931 along with a significant increase in salaries and commissions (cost of goods for appraisal services) of \$1,070,925. The Company reported a credit of harmonized sales tax during the second quarter of 2019 which offset a portion of the increased expenses. For the three months ended September 30, 2019, total expenses increased by \$833,012 over the three months ended September 30, 2018. (See *Overview of Operating Segments* for additional detail).

By comparison, overall revenue for the three months ended September 30, 2019 increased by \$832,251 over reported third quarter revenues from 2018. Property Interlink reported an increase of \$405,365, while revenue in MFI Credit Solutions increased by \$404,605.

Reliable Valuation Service reported an increase in total revenues of \$36,085 for the nine months ended September 30, 2019 and \$22,281 for the three months ended September 30, 2019, over the same periods last year.

Depreciation and amortization expenses increased sharply when comparing the first nine months of 2019 and 2018, from \$217,857 at the end of the third quarter in 2018 to \$324,886 for the same period in 2019. This is due to the amortization of intangible assets acquired through the purchase of MFI Credit Solutions in February of 2018.

## **OVERVIEW OF OPERATING SEGMENTS**

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. The operating results of all operating segments are reviewed regularly by the Company's Chief Financial Officer and Chief Executive Officer who are the chief operating decision-makers for key decisions relative to resources to be allocated to the segments and for assessing their performance, in consultation with the board of directors of Starrex. Operating companies may be aggregated into a reportable segment based on the nature of the products and services, production process, customer base and regulatory environment at the operating companies, as well as key financial metrics such as gross margin and projected long-term revenue growth.

As at September 30, 2019, the Company operated four reportable segments: Starrex International Ltd. (Corporate), Property Interlink, LLC, MFI Credit Solutions, LLC and Reliable Valuation Service, LLC. The segmented results are provided below for the nine-month period ended September 30, 2019:

**Starrex International, Ltd.**

Management Discussion &amp; Analysis – Quarterly Highlights

Nine Months ended September 30, 2019

	<b>Property Interlink, LLC</b>	<b>MFI Credit Solutions, LLC</b>	<b>Corporate</b>	<b>Reliable Valuation Service, LLC</b>	<b>Total</b>
Current assets	\$ 408,595	\$ 412,045	\$ 150,385	\$ 13,048	\$ 984,073
Property and equipment	52,578	38,273	-	-	90,851
Right-of-use assets	242,645	-	-	-	242,645
Intangible assets	122,175	990,437	146,811	-	1,259,423
Goodwill	621,132	294,156	-	-	915,288
<b>Total assets</b>	<b>\$ 1,447,125</b>	<b>\$ 1,734,911</b>	<b>\$ 297,196</b>	<b>\$ 13,048</b>	<b>\$ 3,492,280</b>
Current liabilities	\$ 713,551	\$ 814,635	\$ 260,711	\$ -	\$ 1,788,897
Long-term liabilities	\$ 274,377	\$ -	\$ -	\$ -	\$ 274,377
<b>Total liabilities</b>	<b>\$ 987,928</b>	<b>\$ 814,635</b>	<b>\$ 260,711</b>	<b>\$ -</b>	<b>\$ 2,063,274</b>
Revenues	\$ 6,326,906	\$ 2,852,489	\$ -	\$ 36,085	\$ 9,215,480
Expenses	\$ 6,593,788	\$ 2,905,686	\$ 90,685	\$ 20,926	\$ 9,611,085
Operating (loss) income from continuing operations before provision for income tax	\$ (266,882)	\$ (53,197)	\$ (90,685)	\$ 15,159	\$ (395,605)
Income tax expense	\$ 5,016	\$ 1,000	\$ 1,344	\$ -	\$ 7,360
<b>Net (loss) income and comprehensive loss for the period</b>	<b>\$ (271,898)</b>	<b>\$ (54,197)</b>	<b>\$ (92,029)</b>	<b>\$ 15,159</b>	<b>\$ (402,965)</b>





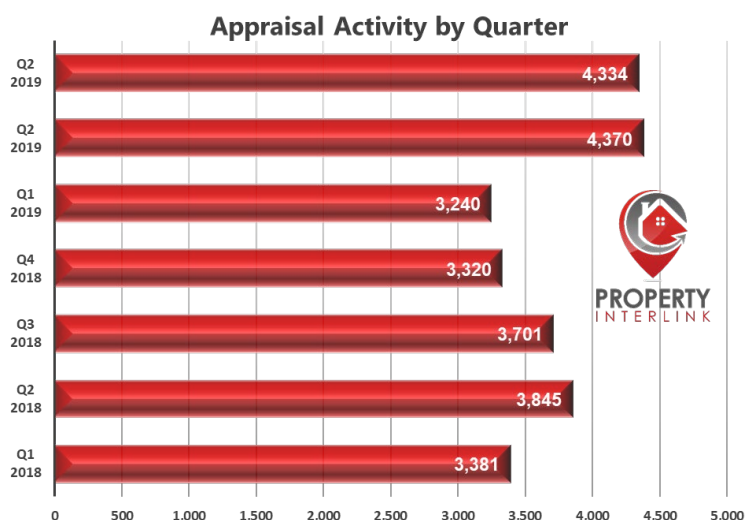
## Starrex International, Ltd.

Management Discussion & Analysis – Quarterly Highlights  
Nine Months ended September 30, 2019

Property Interlink reported a net comprehensive operating loss of \$271,898 for nine months ended September 30, 2019, compared to net income of \$89,123 during the same period in 2018. This is primarily due to corporate allocation of \$306,000 during the period.

Depreciation and amortization expenses for the nine months ended September 30, 2019 were \$204,806 (September 30, 2018 – \$121,942). The large variance is attributable to the depreciation reported for right-of-use assets, or leases, as required by IFRS 16, *Leases*, adopted January 1, 2019. This amount was \$99,264 for the nine months ended September 30, 2019.

One of the fundamental differences in Property Interlink, LLC versus most other appraisal firms and appraisal management companies is the fact that Property Interlink has certified appraisers on staff rather than utilizing independent contractors. When possible, Property Interlink assigns appraisal orders to employees of the Company, which results in a much higher gross margin than is derived when using an independent contractor, often as much as a 30% variance.



Since the acquisition of Property Interlink in July of 2014, average volume has increased from 750 to 1,259 appraisals per month (rolling yearly average) reaching a peak of 1,539 in May of 2019. Seasonal cycles in the housing market historically trend lower from October through January and higher in the second and third quarters.

The adjacent chart provides historical quarterly volumes for appraisal activity.

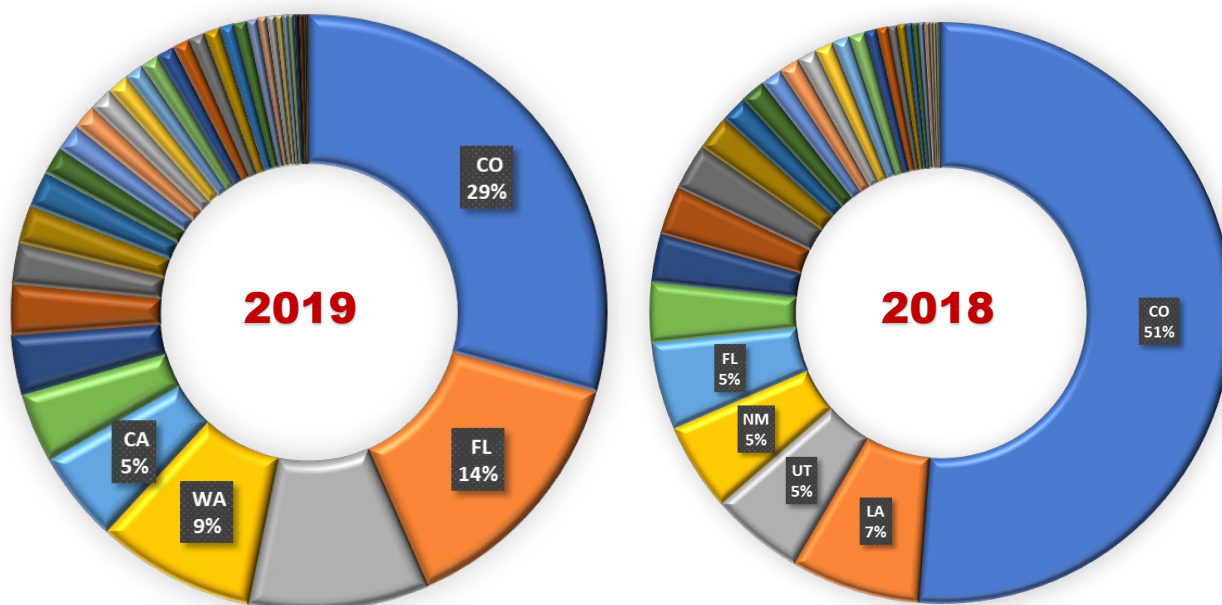
More than 64% of revenue in Property Interlink is derived from activity in Texas, closely followed by Colorado and Florida. Property Interlink works closely with a large mortgage origination company in Houston, Texas. During the first three quarters of 2019 Texas activities generated \$4,072,194 in revenue. Property Interlink, LLC has physical offices in Houston, Texas, where its largest customer is located, and in Grand Junction, Colorado, where Property Interlink, LLC was initially formed. The following chart provides an allocation of relative volumes of activities by states or other jurisdictions (excluding Texas) for the first nine months of 2019 and 2018.

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Management Discussion & Analysis – Quarterly Highlights

Nine Months ended September 30, 2019

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### MFI Credit Solutions, LLC

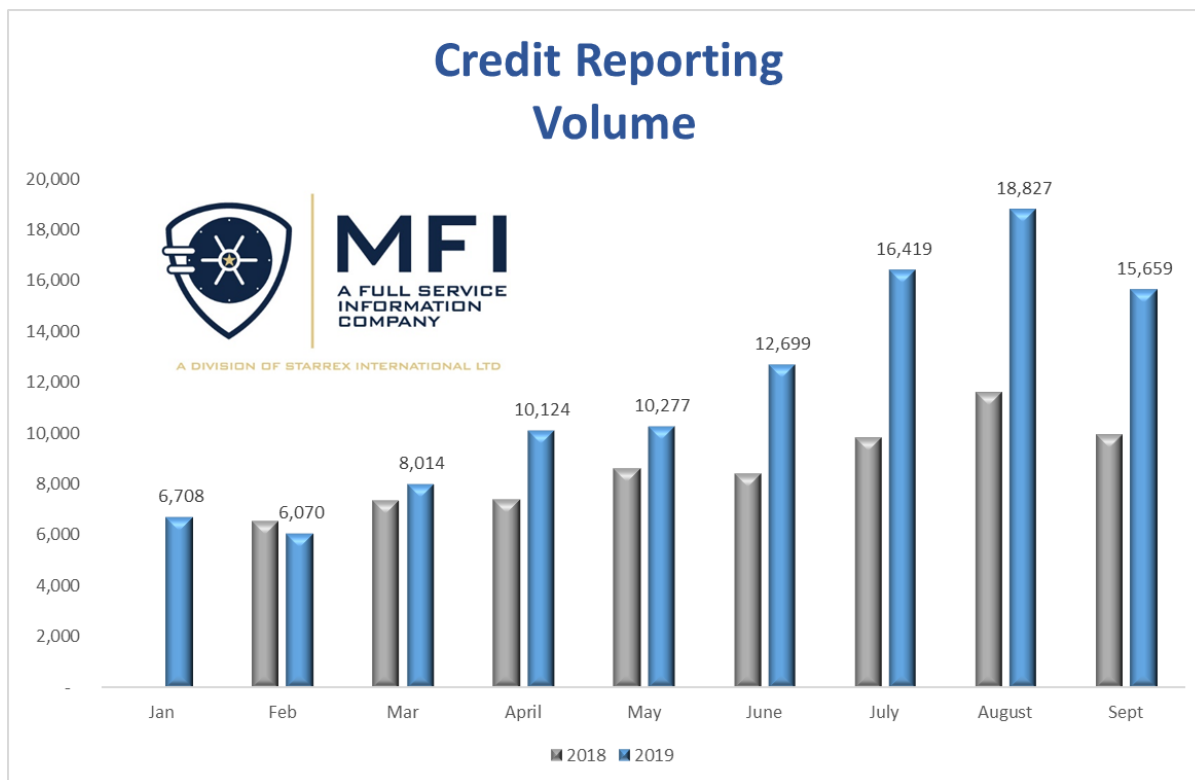
Starrex is strategically aligned to provide ancillary mortgage services to mortgage banks and brokers, such as appraisal services provided by Property Interlink. The addition of MFI, a credit reporting agency, expands the core services Starrex now offers and is an ideal acquisition in support of the Company's vision and long-term growth and acquisition strategy in the real estate sector. MFI is approved and licensed by the three largest credit reporting bureaus in the United States – TransUnion, Equifax and Experian. No further licensing is required. MFI delivers credit reports, along with other consumer credit-related products, as contracted for each state and/or jurisdiction in the United States.

During the first three quarters of 2019, MFI Credit Solutions generated \$2,852,489 in revenue, an increase of \$1,106,915 over the same period in the prior year (September 30, 2018 - \$1,745,574). This revenue is derived from the delivery of consumer credit reports, consumer tax reports and related information gathering activities. Revenue in MFI Credit Solutions is recognized as *Revenue from Contracts with Customers, IFRS 15*.

Expenses for the nine months ended September 30, 2019, were \$2,905,686 compared to \$1,776,195 during the same period in 2018, an increase of \$1,129,491. This increase is, in part, due to the increase in volume (see chart below) and the cost of credit reporting activities, as well as associated salaries, general and administrative costs to support the operations. MFI Credit Solutions, LLC also reported \$103,500 in corporate allocation for the first nine months of 2019 compared to \$93,323 over the same period last year.

MFI Credit Solutions, LLC reported a net loss of \$54,197 for the nine months ended September 30, 2019, compared to a net loss of \$30,621 over the same period in 2018, a variance of \$23,576.

MFI Credit Solutions, LLC has been in negotiations with a large mortgage originations company for the past several months and successfully signed an Agreement to provide credit reporting services to their respective mortgage branches. If MFI Credit Solutions, LLC is successful in transitioning the balance of this operation's credit reporting needs, the volume would materially expand the operations of MFI Credit Solutions. Activities in support of this Agreement commenced in August 2019.



### Reliable Valuation Service, LLC

Reliable Valuation Service, LLC, a Wyoming limited liability company, was incorporated June 13, 2018, as a staff appraisal company. Reliable Valuation Service was established to segregate the activities of staff appraisals and those of appraisal management. Operating activity began during the first quarter of 2019. During the first nine months of 2019, Reliable Valuation Service reported \$36,085 in revenue with \$20,926 in expenses, resulting in net operating income of \$15,159.

### LIQUIDITY

At September 30, 2019, Starrex held \$208,334 in cash, an increase of \$47,989 over \$160,345 as at December 31, 2018. This was a result of exercise of 500,000 stock options and positive cash flow during the nine months ended September 30, 2019.

At September 30, 2019, the Company held current assets of \$984,073 (\$673,386 – December 31, 2018) and current liabilities of \$1,788,897 (\$1,940,731 – December 31, 2018). The Company's current assets were \$310,687 higher than year-end as a result of an increase in accounts receivable, prepaid expenses and positive cash flows.

The Company has the following commitments:

- On January 23, 2018, the Company entered into a note purchase agreement. In return for an aggregate sum of \$500,000, the Company issued to the lender a note convertible at the option of the holder into common shares with a conversion price of \$0.73 per share, and with a maturity date of January 22, 2019. Interest accrues at 6% per annum. The Company recorded \$28,138 in accrued interest for the year ended December 31, 2018 (2017 - \$Nil).

Effective January 23, 2019, the Company entered into an Amending Note Purchase Agreement. Under the Amending Note Purchase Agreement, the conversion price was amended to \$1.06 from \$0.73 per share with a maturity date of April 22, 2019. Accrued interest through January 23, 2019 of \$30,000 was paid in full on February 14, 2019. The holder of the Amending Note Purchase Agreement exercised the right to convert the entire principal balance of \$500,000 at a rate of \$1.06 per share into 471,698 common shares (see Note 14). The effect of the modification resulted in a loss of \$3,000.

## Starrex International, Ltd.

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Nine Months ended September 30, 2019

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- On November 16, 2018, the Company entered a Promissory Note with Hilltop Financial, LLC, a related party (by common Director) to be utilized as a revolving line of credit. The Company recorded \$5,862 in accrued interest for the period ended September 30, 2019 (2018 – \$Nil). As at September 30, 2019, the Company utilized \$117,751 of the revolving line of credit (2018 - \$80,000), which is reported as a short-term liability (see Note 14 of the financial statements).

During the nine-month period ended September 30, 2019, the Company used \$47,266 in operating activities. Utilization of cash from investing activities for the purchase of computer equipment represented \$7,216. The Company made principal payments to the revolving line of credit of \$42,249 with Hilltop Financial during the second quarter.

Management believes the issuer has adequate working capital to fund operations and has adequate cash resources to finance future foreseeable capacity expansions. The existing operating line of credit is adequate to satisfy material operating cash requirements of all operating subsidiaries. The seasonal increase in appraisal and credit reporting volume in the housing sector results in a seasonal increase in liquidity in the spring and summer and is adequate to manage the liquidity in the fall and winter.

## FINANCIAL POSITION

Trade and other receivables, as well as current receivables, were \$688,146 as at September 30, 2019 compared to \$462,316 at December 31, 2018. During ordinary course of business, balance sheet accounts receivable remains steady with the necessary controls in place to ensure collectability. The large increase is directly associated with the growth of MFI Credit Solutions, LLC and receivables therein.

Approximately 45% of the customer base for MFI Credit Solutions, LLC is on a term account with average days to collect at 30 for the quarter ending September 30, 2019. By comparison, Property Interlink, LLC currently reports 22 days to collect.

## CAPITAL DISCLOSURES

The Company's objectives when managing capital are to maintain its ability to continue as a going concern, to provide return for shareholders and benefits for other stakeholders and to ensure sufficient resources are available to meet day-to-day operating expenses.

The Company considers the items included in shareholders' equity as capital. The Company manages its capital structure and will adjust it, when necessary, 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.

## TRANSACTIONS WITH RELATED PARTIES

AmCap Mortgage Ltd., a related customer (by common Director) accounted for \$4,222,088 for the nine month period ended September 30, 2019 (2018 - \$3,236,255) of revenue to the Company. As at September 30, 2019, \$90,664 (December 2018 – \$20,570) is included in accounts receivable on the consolidated statements of financial position. For the three months ended September 30, 2019, revenue derived from Amcap Mortgage Ltd was \$1,619,261 compared to \$931,855 during the same period in 2018.

### *Hilltop Financial, LLC*

On November 16, 2018, the Company entered into a Promissory Note with Hilltop Financial, LLC, a related party (by common Director) to be utilized as a revolving line of credit. The Company recorded \$5,862 in accrued interest for the nine month period ended September 30, 2019 (2018 – \$Nil). For the three months ended September 30, 2019 the

## Starrex International, Ltd.

### Management Discussion & Analysis – Quarterly Highlights

Nine Months ended September 30, 2019

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Company recorded \$1,781 in accrued interest (2018 - \$Nil). As at September 30, 2019, the Company utilized \$117,751 (2018 - \$80,000) of the revolving line of credit, which is reported as a short-term liability (see Note 14).

#### *Key Management Compensation*

The Company had the following transactions with officers and directors of the Company and private companies controlled by officers and directors of the Company for management consulting and other services required:

- i) The Company incurred \$232,920 in management fees for the period ended September 30, 2019 (2018 - \$247,920) to the Chief Operating Officer, Chief Executive Officer and Chief Financial Officer for services provided. For the three months ended September 30, 2019, the Company incurred \$67,640 in management fees (2018 - \$82,640). These fees are included in management and corporate services. At September 30, 2019 and 2018, all amounts had been paid.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The preparation of these unaudited condensed interim consolidated financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities.

Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Areas where estimates are significant to these unaudited condensed interim consolidated financial statements are discussed below:

#### a. Goodwill

Goodwill and other intangible assets represent \$2,174,711 on the consolidated statements of financial position at September 30, 2019 (\$2,339,246 – December 31, 2018). These assets arose out of business combinations and are accounted for under the acquisition method of accounting, which involves the allocation of the cost of an acquisition to the underlying net assets acquired based on their respective fair values. These determinations involve significant estimates and assumptions regarding cash flow projections, economic risk and weighted cost of capital. As part of this allocation process, the Company must identify and attribute values and estimated lives to the intangible assets which may have finite lives.

Goodwill and other indefinite life intangible assets are tested for impairment annually or more frequently if there is an indication of impairment. The carrying value of intangible assets with definite lives (software, trade name, customer relationships, and non-compete agreements) and equipment is reviewed each reporting period to determine whether there is any indication of impairment. If the carrying amount of an asset exceeds its recoverable amount, the asset is impaired, and an impairment loss is recognized in the Consolidated Statement of Comprehensive Income or Loss.

#### b. Estimated useful lives of long-lived assets

Significant judgment is involved in the determination of useful life for the computation of depreciation of property and equipment and amortization of intangible assets. No assurance can be given that actual useful lives will not differ significantly from current assumptions.

#### c. Income taxes

The Company's income tax expense, deferred tax assets and liabilities for unrecognized tax benefits reflects management's best estimate of current and future taxes to be paid. The Company is subject to income taxes in the United States and Canada. Significant judgments and estimates are required in the determination of the consolidated income tax expense.

#### d. Contingencies

Provisions are accrued for liabilities with uncertain timing or amounts, if, in the opinion of management, it is both likely that a future event will confirm that a liability had been incurred at the date of the consolidated financial statements of financial position and the amount can be reasonably estimated. In cases where it is not possible to determine whether such a liability has occurred, or to reasonably estimate the amount of loss until the performance of some future event, no accrual is made until that time.

For a detailed summary of the Company's significant accounting policies, the reader is directed to the Notes of the audited annual financial statements for the year ended December 31, 2018, available on SEDAR at [www.sedar.com](http://www.sedar.com).

***Accounting standards, interpretations, and amendments to existing standards that have been recently adopted:***

- IFRS 16, *Leases* replaces IAS 17, *Leases* and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a services contract on the basis of whether the customer controls the assets being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019.

## **FINANCIAL AND DISCLOSURE CONTROLS AND PROCEDURES**

During the nine months ended September 30, 2019, there have been no significant changes in the Company's internal control over financial reporting since last year. The Company's internal control processes are reviewed and updated as necessary.

The Company's Chief Executive Officer and Chief Financial Officer (the "Disclosure Committee") are responsible for establishing and maintaining the Company's disclosure controls and procedures, including adherence to the Disclosure Policy adopted by the Company. The Disclosure Policy requires all staff employees to keep the Disclosure Committee fully apprised of all material information affecting the Company so that the Disclosure Committee may discuss and evaluate such 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 interim period ended September 30, 2019, concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company 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 to be 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 makes the described identification and authorization process reasonably efficient and is an effective 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 checks and completing and recording wire requests. As of September 30, 2019, the Company's Disclosure Committee concluded that the Company's system of internal controls is adequate and reasonably comparable to those of issuers of a similar size and business nature.

## **RISKS AND UNCERTAINTIES**

### *Credit Risk*

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. For financial assets, this is typically the gross carrying amount, net of any amounts offset and any impairment losses. In the normal course of business, the Company is exposed to credit risk from its customers and the related accounts receivable are subject to normal industry credit risk.

The Company applies the IFRS 9 simplified approach to measuring expected losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. The expected loss rates are based on the payment profiles

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of sales over a period of 36 months before the year end. The historical loss rates, if any, are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. All trade receivables are less than sixty days past due. On that basis, no allowance for doubtful accounts was recorded nor were expected losses determined on adoption of IFRS 9.

### *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 working capital to meet its liquidity requirements.

	<b>September 30, 2019</b>		<b>December 31, 2018</b>	
Cash and cash equivalents	\$	208,334	\$	160,345
Current liabilities	\$	1,788,897	\$	1,940,731

### *Interest Rate Risk*

The Company is exposed to interest rate risk to the extent that the cash maintained at financial institutions is subject to a floating rate of interest. The interest rate risks on cash and on the Company's obligations are not considered significant.

### *Foreign Currency Risk*

The Company is exposed to foreign currency risk on fluctuations related to cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities that are denominated in a foreign currency. As at September 30, 2019, the Company held immaterial amounts of cash and cash equivalents and accounts receivable in CDN currency and considers foreign currency risk to be low.

	<b>September 30, 2019</b>		<b>December 31, 2018</b>	
Cash and cash equivalents	\$ CDN	-	\$ CDN	-
Accounts receivable		495		495
Accounts payable and accrued liabilities		-		(291,040)
<b>Total</b>	<b>\$ CDN</b>	<b>495</b>	<b>\$ CDN</b>	<b>(290,545)</b>

## SHARE CAPITAL

As at September 30, 2019, the share capital of the Company continued to be comprised exclusively of common shares. During the nine month period ended September 30, 2019, 971,698 additional shares were issued, pursuant to the exercise of stock options and note conversion.

<b>Issued</b>	<b>Number of Common Shares</b>	<b>Amount \$</b>
Balance, December 31, 2018	14,580,827	6,779,711
Exercise of options	500,000	185,097
Note Conversion	471,698	557,260
Balance, November 21, 2019	15,552,525	7,522,068

The Company has a stock option plan (the "Plan") that enables its directors, officers, employees, consultants and advisors to acquire common shares of the Company. Options are granted at the discretion of the Board of Directors. Under the terms of the Plan, options totaling up to 10% of the common shares outstanding from time to time are issuable. The exercise price, vesting period and expiration period are fixed at the time of grant at the discretion of the Board of Directors.

The following table sets out the numbers of options outstanding at various period-ends and the number of options exercised, expired and granted during the respective periods, as well as other relevant information regarding the applicable options.

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	Number of options	Weighted average exercise price \$	Grant Date Fair Value
<b>Outstanding, December 31, 2018</b>	<b>825,000</b>	<b>0.49</b>	<b>1.08</b>
Exercised	(500,000)	0.25	0.75
Expired	(50,000)	0.25	0.75
Granted	50,000	0.75	0.56
Outstanding, September 30, 2019	325,000	1.01	0.84
Exercisable, September 30, 2019	300,000	1.05	0.82

The following table sets out the number of options outstanding, as well as their respective grant dates, exercise prices, expiry dates and average remaining lives.

	Number of Options Outstanding	Number of Options Exercisable	Exercise Price	Expiry Date	Weighted Average Remaining Life
Granted August 25, 2015	100,000	100,000	\$ 1.25	September 1, 2020	0.92
Granted February 9, 2018	50,000	50,000	\$ 0.38	February 9, 2023	3.36
Granted October 5, 2018	125,000	100,000	\$ 1.29	October 5, 2023	4.01
Granted May 8, 2019	50,000	50,000	\$ 0.75	May 8, 2024	4.61
<b>Total</b>	<b>325,000</b>	<b>300,000</b>			<b>3.05</b>

The Company incurred \$28,821 in share-based payment expense for options for the nine-month period ended September 30, 2019 compared to \$25,500 for the same prior period in 2018.