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## **Management's Discussion and Analysis**

For the six months ended June 30, 2022 and 2021

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## Introduction

Starrex International Ltd. (“Starrex” or the “Company”) is a publicly traded company, incorporated in 1982 under the Canada Business Corporations Act with its head office at 639 5th Avenue S.W., Calgary, Alberta T2P 0M. Starrex’s common shares trade on the Canadian Securities Exchange (“CSE”) under the symbol “STX” and in the United States on the OTCQB market under the symbol “STXMF.”

The following Management Discussion and Analysis (“MD&A”) was prepared as of August 29, 2022 and should be read in conjunction with our unaudited condensed interim consolidated financial statements (“financial statements”) for the three months ended March 31, 2022 and our audited consolidated financial statements, including notes thereto, for the years ended December 31, 2021 and 2020. All amounts included in this MD&A are reported in U.S. dollars, unless otherwise stated, and have been prepared in accordance with International Financial Reporting Standards (“IFRS”). Throughout this MD&A, Starrex International Ltd. and its subsidiaries are referred to as (“Starrex”) or (“the Company”), including the terms “we”, “us” and “our”. Additional information about the Company, including the Company’s Annual Information Form for the year ended December 31, 2021, can be found on SEDAR under the Company’s profile at [www.sedar.com](http://www.sedar.com).

## Overview

Starrex International Ltd. (“Starrex”) is a national provider of real estate appraisal and credit reporting services to mortgage lenders and brokers in the United States of America. Our leading-edge technology platform and specialized business model provides a streamlined approach to our clients resulting in faster turnaround times.

We are committed to investing in our employees, delivering value to our customers, ethically managing our suppliers and professional networks, and supporting the outside communities within which we work. While each of our subsidiaries serves its own corporate purpose, they share a fundamental commitment to all of our shareholders – to deliver value, service and growth.

### *Credit Reporting Services*

**MFI Credit Solutions, LLC** (“MFI”) ([www.mfidata.com](http://www.mfidata.com)) is a full-service credit reporting agency, with resources from all three national credit agencies – TransUnion, Equifax and Experian. MFI has been providing consumer credit reports to Mortgage Lenders, Mortgage Brokers, and Credit Unions for homebuyers considering the purchase or refinance of a home for more than 17 years. We are nationally recognized as a trusted provider of not only credit services, but risk mitigation, flood and verification services. MFI Credit Solutions, LLC is governed by the Fair Credit Reporting Act (FCRA) and has the ability to provide credit reports to borrowers in all states.

### *Appraisal Services*

**Property Interlink, LLC** (“Property Interlink”) ([www.propertyinterlink.com](http://www.propertyinterlink.com)) is a full-service appraisal management company (“AMC”), managing a nationwide network of independent qualified real estate appraisers. An AMC provides a layer of oversight to the appraisal process assisting consumers in obtaining unbiased valuations for mortgage financing. Currently licensed in forty-one states, Property Interlink provides an innovative and comprehensive selection of valuation and commercial appraisal management services to the Mortgage Industry.

A residential real estate appraisal is a licensed appraiser’s opinion of the market value of a residential property. The cost of an appraisal varies by type of appraisal conducted, property type and geographical location. The majority of our clients order residential appraisals for mortgage purchase or refinancing required by Government Sponsored Entity (“GSE”) requirements.

**Reliable Valuation Service, LLC** (“RVS”) ([www.reliablevaluation.com](http://www.reliablevaluation.com)) is a fully licensed staff appraisal company providing objective and comprehensive valuations of residential real estate to the mortgage industry with an employee appraiser model that provides a level of quality, control and consistency unmatched in the industry. We provide appraisals for appraisal management companies, including Property Interlink, Mortgage Brokers, Lenders and Banks. Pricing for these appraisal services is dependent upon location, property type, and type of appraisal requested.

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.

## **Important Factors Affecting our Result from Operations**

Our business is subject to a variety of risks and uncertainties. Please refer to the "Cautionary Note Regarding Forward-Looking Information" contained in this MD&A for a description of the risks that impact our business and that could cause our financial results to vary.

### **Impact of COVID-19**

#### **Operations**

Our operations have not experienced any significant adverse effects as a result of COVID-19.

#### **Customers and Communities**

The health and well-being of our employees and clients, as well as our community, is our top priority. We have integrated social distancing in our processes in recognition of the significant impact COVID-19 has had on our employees, clients and the field professionals in our network and actively monitor the current situation, taking every step to help ensure a safe working environment.

As an essential service provider, our appraisers continue to provide the high level of service our clients expect. While some homeowners postponed valuation of their homes during this pandemic, most transactions are still being completed, while practicing social distancing to mitigate physical contact. We have not experienced a significant impact to volume or our ability to complete appraisals as of today.

#### **Workforce**

Currently, 95% of our employees have returned to the corporate office environment.

#### **Financial Condition**

Starrex provides services to the financial services industry which has been deemed by the United States Department of Homeland Security to be an essential service. Accordingly, COVID-19 has not had a material adverse impact on our financial condition. The United States housing market is the primary driver of financial performance which is greatly influenced by cyclical trends and seasonality in mortgage originations and refinancing. Revenues are also impacted by the seasonal nature of the residential mortgage industry, with volumes surging higher during the second and third calendar quarters of the year as homebuyers typically purchase more homes during those months than any other.

Starrex continues to review and evaluate merger and/or acquisition ("M&A") transactions in an ongoing effort to increase market share and geographic footprint in the real estate and mortgage services industries.

Our current assets are primarily comprised of cash and trade and other receivables. Our foremost risk associated with current assets is the risk of credit losses attributable to receivables with large accounts and the potential impact of COVID-19. We performed a thorough review of amounts due, current customer volume and credit policy. To date, we have not changed our accounting policy for credit losses and a provision of loss is not required. The potential impact of COVID-19 is subject to significant uncertainty and while our activity in credit and appraisal services remains strong, we realize the pandemic could have a substantial impact on our clientele. Our focus on collections has increased to mitigate credit risk as well as assess potential financial deficiencies.

Our long-term assets are primarily comprised of property and equipment, intangibles and goodwill. We assess the carrying value of property and equipment and intangibles as of each reporting period to determine if impairment is required in accordance with IFRS. Based upon our financial condition as at June 30, 2022, and as of the date of this Management's Discussion and Analysis, we have determined the carrying value of these assets did not exceed its recoverable amount and have not recorded an impairment charge.

Goodwill is not amortized but is evaluated for impairment annually or when indicators for potential impairment are present. The Company's impairment testing is based on valuation models that incorporate assumptions and internal projections of expected future cash flows. Due to the COVID-19 pandemic, we evaluated goodwill as at June 30, 2022, and have determined there is no indication of impairment of goodwill.

### Capital and financial resources

We do not currently have any concerns regarding our ability to fulfill our financial obligations and while we do not anticipate the need to draw on our revolving credit facility, we will maintain the line to support working capital and potential acquisitions, if needed.

We continue to review our approach to capital on an ongoing basis, as well as monitor our credit risk from a client concentration perspective. We are not subject to externally exposed capital requirements and have not changed our capital risk management strategy in the past year.

### Internal Controls

Our operations have remained largely unchanged as a result of COVID-19. Our financial reporting systems, internal control over financial reporting and disclosure controls and procedures remain unchanged as well. We have not experienced a significant change in our control environment that would have a material impact on our internal controls over financial reporting since last year.

### Financial Performance and Operating Segments

The following is a discussion of our consolidated financial condition and results of operations for the three months ended June 30, 2022 and 2021.

### Review of Operations for the three and six months ended June 30, 2022

We conduct our business in the United States in four reportable segments:

Property Interlink, LLC	Appraisal Management Services
Reliable Valuation Service, LLC	Staff Appraisal Services
MFI Credit Solutions, LLC	Credit Reporting Services
Starrex International, LLC	Corporate

### Three and six months ended June 31, 2022

#### Revenues

Consolidated revenues during the first half of 2022 decreased by 11.31% over the same period in 2021, which is attributable to the constricted housing inventory combined with increasing interest rates in the U.S. Housing Market. By comparison, the average 30-year mortgage interest as at June 30, 2021 was 3.0% compared to 5.3% at the end of the second quarter of 2022. This increase has most significantly impacted mortgage refinance activity during the second quarter of 2022, while purchase activity increased during the same period. Based on the July 18, 2022 release of the *MBA Mortgage Finance Forecast*, refinance activity represented 56% of total originations during the second quarter of 2021. By comparison, only 30% of the total activity was for the refinance of a mortgage during the second quarter of 2022. Housing purchases for the second quarter of 2022 were \$477 billion compared to \$460 billion during the second quarter of 2021.

#### Transaction costs

Transaction costs include expenses directly associated with a contractual revenue transaction. This includes appraisal costs and commissions as well as expenses directly correlated with producing credit reports. This expense is largely normalized except for expenses charged by the credit bureaus and increases or decreases proportionately with revenue volumes. For the period ending June 30, 2022, consolidated transaction costs were \$6,234,151 compared to \$7,080,559 as at June 30, 2021.

#### Operating expenses

On a consolidated basis, operating expenses, which includes general and administrative, management and corporate services, shareholder services and government and regulatory filing fees, increased \$27,823 for the three months

ended June 30, 2022, when compared to the same period in 2021. As a percent of revenue, general and administrative costs on a consolidated basis were 10% for the first three and six months of 2022 (9% - June 30, 2021).

#### **Depreciation and Amortization**

Most of the Company's assets, which consist of property and equipment, software, proprietary software, customer relationships and non-compete agreements, are amortized over 4-5 years for equipment and software and 5-10 years for customer relationships. These assets are either fully depreciated or nearing useful life end.

The Company moved its United States based headquarters during July of 2021, which resulted in additions to fixed assets of \$342,832 during 2021 and 2022. Depreciation and amortization for the period ended June 30, 2022 was \$167,510 compared to \$178,804 as at June 30, 2021.

### **MFI Credit Solutions, LLC**

#### **Revenues**

During the first six months of 2022, MFI generated 2,287,246 in revenue – a decrease of 22.5% over the first six months of 2021 (\$2,951,365). This revenue is derived from the delivery of consumer credit reports, consumer tax reports and related information gathering activities, such as verifications of employment and fraud. The Company anticipated a decrease in revenue as the U.S. Housing Market projected an approximate 20% decrease in volume due to increased interest rates and continued economic inflation.

#### **Transaction costs**

Transaction costs attributable to the credit reporting segment decreased by 26% which is directly attributable to the decrease in volume (22.5%). The credit reporting industry is experiencing market constriction due to higher interest rates and typically follows the U.S. Housing Market increases and declines.

#### **Operating expenses**

MFI Credit Solutions reported a slight decrease in overall operating expenses from \$411,616 at June 30, 2022 compared to \$429,979 as of June 30, 2021. As a percentage of revenue, the Company reported a 3% increase due.

#### **Management Fees**

We monitor the operating results of each segment separately for the purpose of making decisions about Corporate resource allocation and intercompany expenditures quarterly. For additional information regarding management fees and subsequent allocation, please refer to the Corporate section.

#### **Depreciation and Amortization**

MFI Credit Solutions, LLC was acquired in February of 2018. All fixed and intangible assets are depreciated and amortized over 5 years for equipment, 7 years for furniture, and 5 years for certain intangible assets. As such, expenses remain unchanged.

### **Property Interlink, LLC**

#### **Revenues**

Property Interlink, LLC reported \$4,442,840 in revenue for the period ended June 30, 2022, compared to \$4,869,886 for the period ended June 30, 2021; a decrease of 8.76% which is indicative of the U.S. Housing Market conditions.

#### **Transaction costs**

Transaction costs, which consist of appraisal commissions, remain stable in the appraisal segments and increase or decrease proportionately with the fluctuations in revenue, or volume.

#### **Operating expenses**

Property Interlink, LLC operates in a relatively normalized financial environment with few outliers. As a percent of revenue, general and administrative expenses are less than 10% year over year. For the periods ended June 30, 2022 and 2021, expenses were 8% of revenue.

### Management Fees

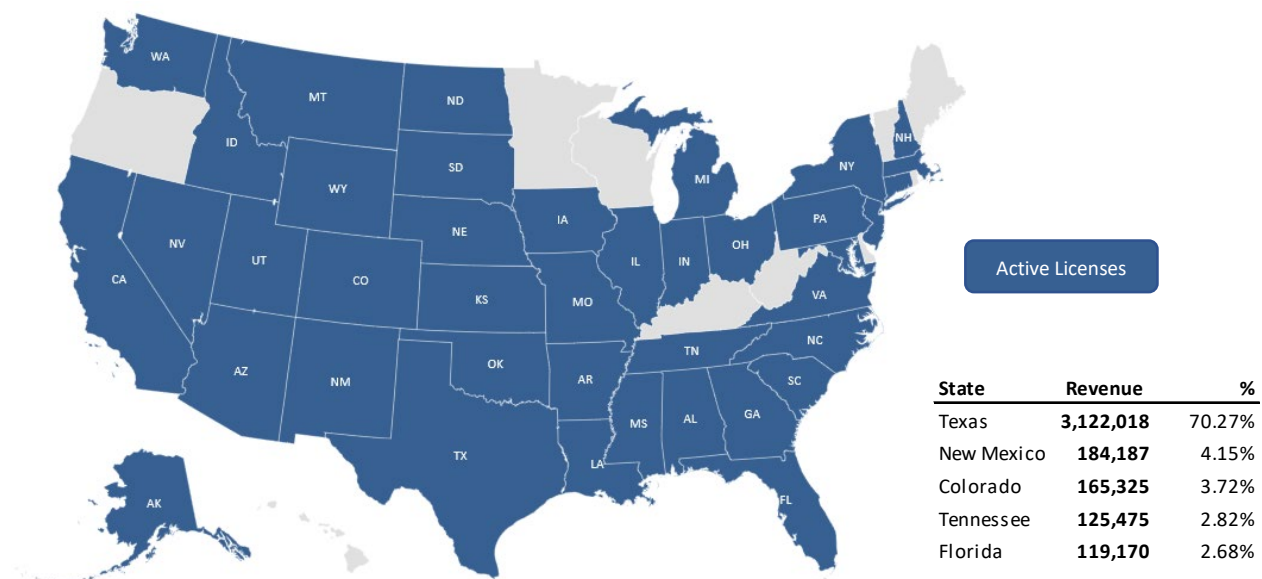
We monitor the operating results of each segment separately for the purpose of making decisions about Corporate resource allocation and intercompany expenditures quarterly. For additional information regarding management fees and subsequent allocation, please refer to the Corporate section.

### Depreciation and Amortization

Depreciation and amortization of fixed and intangible assets declined due to fully depreciated or amortized assets acquired through the purchase of subsidiaries in previous years. All of the right-of-use assets and liabilities associated with leases under IFRS 16 are reported in Property Interlink.

### Compliance and Statistics

Property Interlink, LLC is currently licensed and operates in forty-one states and jurisdictions in the United States. The map below depicts our licensure, both active and non-licensed. The majority of our revenue is generated from appraisal activity in Texas, which was 69.82% for the first quarter of 2022, an increase of 8.6% over the same period last year. New Mexico, Colorado, Florida and Tennessee round out the top five revenue generating states for Property Interlink, LLC for the three months ended June 30, 2022.



### Reliable Valuation Service, LLC

#### Revenues

Reliable Valuation Service, LLC reported a slight decrease of \$148,070 (5%) in revenue during the first half of 2022 when compared to the same period in 2021. Revenue for the period ended June 30, 2022 was \$2,553,884 compared to \$2,701,914 as of June 30, 2021.

#### Transaction costs

The increase in transaction costs is due to the increase in appraisal volume for the quarter. Net revenue margins (defined as total revenue less transaction costs) remained stable at 45%.

#### Operating expenses

Operating expense for the period ended June 30, 2022 increased by \$131,186 over the same period in 2021. This is due to increased cost for information technology and corporate oversight.

### Management Fees

We monitor the operating results of each segment separately for the purpose of making decisions about Corporate resource allocation and intercompany expenditures quarterly. For additional information regarding management fees and subsequent allocation, please refer to the Corporate section.

### Geographic Concentration

Reliable Valuation Service provided residential appraisals for appraisal management companies and consumers in Texas and Colorado during the first six months of 2022 and 2021. For the six months ended June 30, 2022, Texas comprised 89% of total revenue with the remaining 11% associated with Colorado appraisals. These percentages remain materially unchanged from the same period in 2021.

### Starrex International, Ltd. – Corporate and other items

#### Revenues

Starrex International, Ltd. established Starrex Technical Services, LLC effective March 31, 2022 to provide consulting services to third parties. The Company reported \$50,000 in consulting services revenue as at June 30, 2022 (\$Nil – June 30, 2021).

#### Operating expenses

Expenses at the Corporate level increased for the six months ended June 30, 2022 from \$35,044 as at June 30, 2021 to \$295,246 as at June 30, 2022. This increase is attributable to increased depreciation on the fixed assets purchased for the Company's relocation along with increased professional services expenses associated with acquisition due diligence with the remaining balance attributable to additional expenses in software and expenses for the newly acquired office space.

### Summary of Quarterly Results

	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020
Revenues									
Appraisal	3,402,772	3,593,912	3,738,545	4,033,157	4,028,270	3,543,531	3,728,114	3,446,416	2,688,949
Credit Services	1,021,714	1,265,532	1,089,058	1,333,337	1,399,161	1,522,203	1,309,561	1,436,485	1,186,746
Consulting Income	37,500	12,500	-	-	-	-	-	-	-
Total Revenues	4,461,986	4,871,944	4,826,603	5,366,494	5,427,431	5,065,734	5,037,675	4,879,901	3,875,695
Net Income (loss)	(64,536)	5,566	(353,396)	242,437	277,725	367,794	953,895	349,881	302,154
Total assets	5,068,639	5,736,233	5,699,044	5,950,701	5,760,956	5,433,121	4,697,607	4,600,222	4,035,436
Total liabilities	1,657,221	2,260,461	2,228,838	2,127,100	2,179,791	2,129,681	1,848,711	2,705,222	2,543,368
Shareholders' Equity	3,411,418	3,475,772	3,470,206	3,823,601	3,581,165	3,303,440	2,848,896	1,895,000	1,492,068
Net income (loss) per share for continuing operations	0.00	0.00	(0.03)	0.02	0.02	0.02	0.06	0.02	0.02
Basic and diluted loss per share	0.00	0.00	(0.03)	0.02	0.02	0.01	(0.04)	(0.01)	0.00

## Net income (loss)

While net income or loss generally follows the adjusting volumes in the mortgage industry, this is also impacted by changes in amortization and depreciation, stock-based compensation, interest expense, net foreign exchange gains or losses and income taxes. These amounts are not subject to the seasonal nature of our business and fluctuate with other non-operating variable expenses.

Consolidated net income in the first six months of 2022 decreased by \$744,568 when compared to the first six months of 2021. For the three months ended June 30, 2022, consolidated net loss was \$64,537, compared to net income of \$277,725 for the three months ended June 30, 2021. This is largely due to the market downturn driven by increased interest rates and constricted housing inventory across the United States.

The Company also incurred additional expenses in professional services of \$279,783 during the period ended June 30, 2022 (June 30, 2021 - \$187,747) associated with due diligence of potential acquisitions.

## Net income (loss) per weighted average share, basic and diluted

Basic net income per share has been calculated based on the weighted average number of common shares outstanding as at June 30, 2022 of 15,752,525 (December 31, 2021 – 15,591,155). The change in net income per weighted average share in the first half of 2022 compared to the first half of 2021 was (\$0.04). For the three months ended June 30, 2022, the Company reported \$0.00 compared to \$0.02 during the same period ended 2021.

The dilutive effect of stock options is determined by using the treasury stock method and adjusts the figure used in the determination of basic earnings per share to take into account the weighted average number of shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

For the period ending June 30, 2022, 600,000 share options outstanding were included in the diluted net income per share calculation, resulting in 16,016,978 weighted average number of common shares outstanding (June 30, 2021 – 15,737,979).

## Financial Condition

### Select Condensed Consolidated Statement of Financial Position Information

	June 30, 2022	December 31, 2021
Cash	\$ 1,765,207	\$ 2,172,169
Accounts receivable	880,111	992,155
Prepaid expenses	129,284	113,209
Property and equipment, net of depreciation	323,755	318,235
Intangible assets	\$ 822,413	\$ 898,093
Goodwill	915,288	915,288
Right-of-use assets	232,581	289,895
Accounts payable and accrued liabilities	\$ 859,840	\$ 1,350,086
Contract liabilities	557,795	580,372
Lease liabilities – current portion	106,039	91,501
Lease liabilities – non-current portion	133,548	206,879

## Trade and other receivables

Consolidated trade and other receivables were \$880,111 at the end of the first half of 2022 compared to \$992,155 as at December 31, 2021, a decrease of \$112,044. Included in the amount as at June 30, 2022 is \$13,625 in HST receivables in the Corporate segment (December 31, 2021 – 11,365). The amounts are in normal course of business.



Select financial information for the six months ended June 30, 2022 is presented as follows:

	Property Interlink, LLC	MFI Credit Solutions, LLC	Corporate	Reliable Valuation Service, LLC	Total
Current assets	\$ 745,262	\$ 682,135	\$ 971,120	\$ 373,085	\$ 2,774,602
Property and equipment	73,736	10,602	216,299	23,117	323,754
Right-of-use assets	232,581	-	-	-	232,581
Intangible assets	63,356	709,537	49,521	-	822,414
Goodwill	-	294,156	621,132	-	915,288
<b>Total assets</b>	<b>\$ 1,736,067</b>	<b>\$ 1,699,430</b>	<b>\$ 1,236,940</b>	<b>\$ 396,202</b>	<b>\$ 5,068,639</b>
Current liabilities	\$ 678,628	\$ 571,284	\$ 244,514	\$ 29,248	\$ 1,523,674
Long-term liabilities	133,548	-	-	-	133,548
<b>Total liabilities</b>	<b>\$ 812,176</b>	<b>\$ 571,284</b>	<b>\$ 244,514</b>	<b>\$ 29,248</b>	<b>\$ 1,657,222</b>
Revenues	\$ 4,442,840	\$ 2,287,246	\$ 50,000	\$ 2,409,673	\$ 9,333,930
Expenses	\$ 4,460,519	\$ 2,211,281	\$ 295,246	\$ 2,409,673	\$ 9,376,719
Operating income (loss) from continuing operations before provision for income tax	\$ (17,679)	\$ 75,965	\$ (245,246)	\$ 144,171	\$ (42,789)
Income Tax Expense	\$ -	\$ -	\$ -	\$ 15,999	\$ 15,999
Net income and comprehensive for the period	\$ (17,679)	\$ 75,965	\$ (245,246)	\$ 128,172	\$ (58,788)

Select financial information for the six months ended June 30, 2021 is presented as follows:

	Property Interlink, LLC	MFI Credit olutions, LLC	Corporate	Reliable Valuation Service, LLC	Total
Current assets	\$ 1,321,491	\$ 1,305,525	\$ 24,449	\$ 1,063,464	\$ 3,714,929
Property and equipment	27,797	20,558	39,201	23,732	111,288
Right-of-use assets	45,678	-	-	-	45,678
Intangible assets	77,191	811,683	84,899	-	973,773
Goodwill	621,132	294,156	-	-	915,288
Total assets	\$ 2,093,289	\$ 2,431,922	\$ 148,549	\$ 1,087,196	\$ 5,760,956
Current liabilities	\$ 996,803	\$ 875,754	\$ 187,506	\$ 107,970	\$ 2,168,033
Long-term liabilities	11,758	-	-	-	11,758
Total liabilities	\$ 1,008,561	\$ 875,754	\$ 187,506	\$ 107,970	\$ 2,179,791
Revenues	\$ 4,869,886	\$ 2,951,365	\$ -	\$ 2,701,914	\$ 10,523,165
Expenses	\$ 4,761,342	\$ 2,721,596	\$ 35,044	\$ 2,303,404	\$ 9,821,386
Operating income (loss) from continuing operations before provision for income tax	\$ 108,544	229,769	(35,044)	398,510	701,779
Income Tax Expense	\$ 21,005	(377)	-	35,632	56,260
Net income and comprehensive for the period	\$ 87,539	230,146	(35,044)	362,878	645,519

## Share Capital

As at June 30, 2022, the share capital of the Company continued to be comprised exclusively of common shares. There are minimal dilutive securities outstanding or committed for issue, including, without limitation, options issued requiring the future issuance of new share capital by the Company.

The Company is authorized to issue an unlimited number of common shares.

Issued	Number of Common Shares	Amount \$
<b>Balance, December 31, 2021 and June 30, 2022</b>	<b>15,752,525</b>	<b>7,707,501</b>

## Share-Based Payments

The Company has a 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.

	Number of options	Weighted average exercise price \$	Grant Date Fair Value
Outstanding and exercisable, June 30, 2022	600,000	0.64	0.59

	Number of Options Outstanding	Number of Options Exercisable	Exercise Price	Expiry Date	Weighted Average Remaining Life
Granted October 5, 2018	75,000 <sup>(2)</sup>	75,000	\$ 1.40 <sup>(3)</sup>	October 5, 2023	1.26
Granted May 8, 2019	50,000 <sup>(4)</sup>	50,000	\$ 0.60 <sup>(5)</sup>	May 8, 2024	1.85
Granted November 25, 2019	25,000 <sup>(2)</sup>	25,000	\$ 0.57 <sup>(6)</sup>	November 23, 2024	2.41
Granted January 8, 2020	450,000 <sup>(1)</sup>	450,000	\$ 0.52 <sup>(7)</sup>	January 7, 2025	2.53
<b>Total</b>	<b>600,000</b>	<b>600,000</b>			<b>2.31</b>

(1) Executive Officers or Directors of the Company holds these options. They are fully vested.

(2) Key employees hold these options. They are fully vested.

(3) The exercise price is CDN \$1.75.

(4) A consultant of the Company holds these options. They are fully vested.

(5) The exercise price is \$0.75 CDN.

(6) The exercise price is \$0.71 CDN.

(7) The exercise price is \$0.65 CDN.

## Liquidity and Capital Resources

### Cash

At June 30, 2022, Starrex held \$1,765,207 in cash, a decrease of \$406,962 over the December 31, 2021 balance of \$2,172,169 due to cash flows used to purchase furniture and equipment for the new headquarters, along with lease payments.

Current assets at June 30, 2022 were \$2,774,602 compared to \$3,277,533 at December 31, 2021. The decrease of \$502,931 is attributable to decrease in accounts receivable balances along with utilization of additional operating capital to support the subsidiaries.

### Contingencies and Commitments

Effective November 1, 2021, the Company entered into a consulting agreement for appraisal compliance oversight

with a maturity date of October 31, 2022. As at June 30, 2022, this agreement has a minimum commitment of \$14,000 (December 31, 2021 - \$35,000).

### **Liabilities**

Current liabilities at June 30, 2022, were \$1,523,674 compared to \$2,021,959 at the prior year-end, a decrease of \$498,285. Accounts payable and accrued liabilities decreased by \$490,246, to \$859,840 as at June 30, 2022 compared to \$1,350,086 for the year ended 2021. Liabilities from contracts with customers decreased by \$22,577, from \$580,372 at December 31, 2021 to \$557,795 as at June 30, 2022. Deferred revenue for the six months ended June 30, 2022 was \$200,655 compared to \$296,613 at December 31, 2021 and is included in contract liabilities. Deferred revenue in Property Interlink is comprised of prepaid amounts for appraisals that were not completed as of the applicable date. As volumes increase, we expect deferred revenue to increase proportionately.

### **Cash Flows**

Starrex utilized \$308,132 in operating cash flows to support its appraisal and credit services segments. During the same period last year, the company generated \$1,125,706 in cash from activities in the operating segments. This decrease is a result of the U.S. Housing Market conditions. The Company also utilized \$40,036 for the purchase of additional hardware and furniture to support the growth of the Companies along with \$58,793 in lease payments.

### **Related Party Transactions**

#### *Amcap Mortgage Ltd.*

AmCap Mortgage Ltd., a related customer (by common Director) accounted for \$5,531,014 of revenue to the Company for the first six months of 2022 (June 30, 2021 - \$6,589,617). As at June 30, 2022, \$353,376 (December 31, 2021 – \$450,189) is included in accounts receivable on the condensed interim consolidated statements of financial position.

#### *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:

The Company incurred \$419,434 in management fees and associated payroll for the three months ended June 30, 2022 (June 30, 2021 - \$227,806) to key members of management. These fees are included in payroll, management and corporate services. At June 30, 2022 and 2021, all amounts had been paid.

## Critical Accounting Estimates

We use information from our financial statements, prepared in accordance with IFRS and expressed in U.S. dollars, to prepare our MD&A. Our financial statements include estimates and judgments that affect the reported amounts of our assets, liabilities, revenues, expenses and, where and as applicable, disclosures of contingent assets and liabilities. On a periodic basis, we evaluate our estimates, including those that require a significant level of judgment or are otherwise subject to an inherent degree of uncertainty. Areas that are subject to judgment and estimate include revenue recognition, impairment of goodwill and non-financial assets, the determination of fair values in connection with business combinations, the determination of fair value for warrants and financial instruments, lease terms, estimation of incremental borrowing rates to determine the carrying amount of right-of-use assets and lease liabilities and the likelihood of realizing deferred income tax assets. Our estimates and judgments are based on historical experience, our observation of trends, and information, valuations and other assumptions that we believe are reasonable when making an estimate of an asset or liability's fair value. Due to the inherent complexity, judgment and uncertainty in estimating fair value, actual amounts could differ significantly from these estimates.

Areas requiring the most significant estimate and judgment are outlined below.

### Goodwill

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 and customer relationships) 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 profit or loss. The assessment of fair value requires the use of estimates and assumptions related to future operating performance and discount rates, differences in estimates and assumptions could have a significant impact on the financial statements.

### Business Combinations

Applying the acquisition method to business combinations requires each identifiable asset and liability to be measured at its acquisition date fair value. The excess, if any, of the fair value of consideration over the fair value of the net identifiable assets acquired is recognized as goodwill. The determination of acquisition date fair values often requires management to make assumptions and estimates about future events. The assumptions with respect to fair value of intangible assets require a high degree of judgment and include estimates for future operating performance, discount rates, technology migration factors and terminal value rates.

### Taxes

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company is also subject to tax regulations as they relate to flow-through financing arrangements. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

## Leases

The determination of the Company's lease liability and right-of-use asset depends on certain assumptions which includes the selection of the discount rate. The discount rate is set by referencing to the Company's incremental borrowing rate. Significant assumptions are required to be made when determining which borrowing rates to apply in this determination. Changes in the assumptions used may have a significant effect on the Company's consolidated financial statements.

## Expected Credit Losses

Determining an allowance for expected credit losses ("ECLs") requires management to make assumptions about the historical patterns for the probability of default, the timing of collection and the amount of incurred credit losses, which are adjusted based on management's judgment about whether economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest.

## Other

Other estimates include, but are not limited to, the following: identification of CGUs, impairment assessments for non-financial assets, inputs to the Black-Scholes option pricing model used to value stock-based compensation, estimates of property and equipment's useful life, assessing provisions, estimating the likelihood of collection to determine our allowance for doubtful accounts, the fair value of financial instruments, control assessment of subsidiaries, contingencies related to litigation and contingent acquisition payables, claims and assessments and various economic assumptions used in the development of fair value estimates, including, but not limited to, interest and inflation rates and a variety of option pricing model estimates.

## Risk and Risk Management

*Risks and uncertainties facing us, and how we manage these risks.*

### Business Risk

Starrex has established policies and procedures to identify, manage and control operational and business risks that may impact our financial position and our ability to continue ordinary operations. Management is responsible for ongoing control and mitigation of operational risk by ensuring the appropriate policies, procedures and internal controls, as well as compliance measures are undertaken.

### Credit Risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfil 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's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. The Company generally does not require collateral for sales on credit. The Company closely monitors extensions of credit and has not experienced significant credit losses in the past. At June 30, 2022, and December 31, 2021, the Company had a nil balance in the reserves for credit losses and had no material past due trade receivables.

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 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, the Company has not provided for expected credit losses.

### Financial Risk

The Company maintains strong internal controls, including management oversight at both the parent and subsidiary levels, to provide reasonable assurance of financial reporting reliability and preparation of financial statements for external purposes consistent with IFRS.

### 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.

### 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. At June 30, 2022, the Company had cash of \$1,765,207 (December 31, 2021 - \$2,172,169) available to settle current liabilities of \$1,523,674 (December 31, 2021 - \$2,021,959).

### 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, accounts receivable, and accounts payable and accrued liabilities that are denominated in a foreign currency. As at March 31, 2021, the Company held immaterial amounts of cash, accounts receivable and accounts payable and accrued liabilities in CDN currency and considers foreign currency risk to be low.

	June 30, 2022	December 31, 2021
Accounts receivable	-	14,886
Accounts payable and accrued liabilities	(1,181)	(2,241)
<b>Total</b>	<b>(1,181)</b>	<b>12,352</b>

### Federal and State Regulation

As at June 30, 2022, we are subject to licensing requirements in many of the states in which we operate. The appraisal management business operated by Property Interlink is currently licensed and operating in forty states and/or jurisdictions. Of these states, Alabama, Idaho, Iowa, New Mexico, North Carolina, Oregon, South Dakota and Utah require surety bonds in the amounts of \$25,000 each with Arizona, Arkansas, Colorado, Georgia, Louisiana, Missouri and Tennessee requiring \$20,000. The Company is also required to provide surety bonds in the amounts of \$100,000 each for Wyoming and Washington. We may become subject to additional registration or licensing requirements if we expand our businesses to additional services or to provide our services in additional states. We are in compliance with all licensing and bonding requirements in the jurisdictions in which we operate.

We cannot predict the impact of new or changed laws, regulations or licensing requirements, or changes in the ways that such laws, regulations or licensing requirements are enforced, interpreted or administered. Financial and mortgage servicing laws and regulations are complex, are subject to change and have become more stringent over time. It is possible that greater than anticipated regulatory compliance expenditures will be required in the future. We expect that continued government and public emphasis on regulatory compliance issues will result in increased future costs of our operations. The Company mitigates this risk by with compliance monitoring and quarterly reviews of appraisal activity by state.

## Acquisition Activities

Identifying, executing and realizing attractive returns on business combinations is highly competitive and involves a high degree of uncertainty. The Company continually evaluates opportunities to acquire additional complementary businesses. Any resulting acquisitions may be significant in size, may change the scale of the Company's business, and may expose the Company to new geographic, political, operating, financial and other risks. Success in the Company's acquisition activities depends on the Company's ability to identify suitable acquisition candidates, acquire them on acceptable terms, and integrate their operations successfully. Risks include the difficulty of assimilating the operations and personnel of any acquired companies, the potential disruption of the Company's ongoing business, the inability of management to maximize the Company's financial and strategic position through the successful integration of acquired assets and businesses, the maintenance of uniform standards, controls, procedures and policies, the impairment of relationships with customers and contractors as a result of any integration of new management personnel and the potential unknown liabilities associated with acquired businesses.

The Company may be affected by numerous risks inherent in the business operations which the Company acquires. For example, if the Company combines with a financially unstable business or an entity lacking an established record of sales or earnings, the Company may be affected by the risks inherent in the business and operations of a financially unstable or an undercapitalized entity. Although the Company's executive officers and directors will endeavor to evaluate the risks inherent in a particular target business, the Company cannot assure that the Company will properly ascertain or assess all of the significant risk factors or that the Company will have adequate time to complete due diligence investigations. Furthermore, some of these risks may be outside of the Company's control and leave the Company with no ability to control or reduce the chances that those risks will adversely impact a target business.

In addition, the Company may need additional capital to finance an acquisition. Historically, the Company has raised funds through equity financing, although recently the Company used a convertible debt instrument. However, the market prices for financial services are highly speculative and volatile. Accordingly, instability in prices may affect interest in such businesses and the development of such businesses that may adversely affect the Company's ability to raise capital to acquire complementary businesses. There can be no assurance that the Company would be successful in overcoming these risks or any other problems encountered in connection with such acquisitions.

## COVID-19 Update

In December 2019, a novel coronavirus disease ("COVID-19") was reported and in January 2020, the World Health Organization ("WHO") declared it a Public Health Emergency of International Concern. On February 28, 2020, the WHO raised its assessment of the COVID-19 threat from high to very high at a global level due to the continued increase in the number of cases and affected countries, and on March 11, 2020, the WHO characterized COVID-19 as a pandemic.

### *Changes in economic conditions resulting in fluctuations in demand for services provided*

The COVID-19 pandemic has increased the uncertainty surrounding interest rates, refinance rates, the capacity of lenders to underwrite mortgages, house prices, housing stock supply and demand, the availability of funds for mortgage loans, credit requirements, regulatory changes, household indebtedness, employment levels and the general health of the North American economy, each of which could have a significant impact on our operating performance. We generate revenues on a per transaction basis and do not have minimum volume guarantees with our clients. Accordingly, uncertain economic conditions and a lack of housing market strength and/or stability caused by the COVID-19 pandemic could reduce demand for our services, which could have a material adverse effect on our business, financial condition and results of operations.

### *Failing to adequately protect our technology Infrastructure*

We depend on third-party service providers to provide continuous and uninterrupted access to certain elements of our platform. If the supply reliability or security of these services were impacted by the COVID-19 pandemic, it could significantly restrict or otherwise prevent us from carrying out some or all of our business operations, which could have a material adverse effect on our business, financial condition and results of operations.



In addition, an extended period of our employees working in an at home environment could strain our technology resources and introduce operational risks, including heightened cybersecurity risk. Work from home environments may be less secure and more susceptible to hacking attacks, including phishing and social engineering attempts that seek to exploit the COVID-19 pandemic.

*Regulatory risks applicable to us*

We operate in a highly regulated industry, and compliance with laws and regulations are volatile and expensive. In addition, due to the impact of the COVID-19 pandemic, laws and regulations impacting the residential mortgage market, including the compliance and regulatory landscape, are rapidly evolving in an attempt to stop the spread of the COVID-19 pandemic, protect public safety and support the financial needs of affected individuals. New laws and regulations and/or changes to existing laws and regulations brought about by the COVID-19 pandemic could require significant changes to our business model and/or service offerings. If: (i) we are unable to quickly adapt our business model and/or service offerings to comply with any significant changes to the legal and/or regulatory landscape in a cost-efficient manner; (ii) we fail to comply with these rapidly evolving changes; or (iii) we are unable to carry on all or a portion of our business, it could have a material adverse effect on our business, financial condition and results of operations.

Additionally, it is possible that regulatory oversight of the residential mortgage market may, in the future, be scaled back, due to the impact of the COVID-19 pandemic. Any reduction in existing laws and regulations may affect the barriers to entry that the current regulatory environment creates, which could have a material adverse effect on our business, financial condition and results of operations.

*Maintaining our competitive position in a competitive business environment*

Maintaining demand for our services, in the near-term, in response to COVID-19 may require us to, among other things: (i) successfully develop and bring to market enhancements to existing services; (ii) develop new services and technologies that address the needs of our existing and prospective clients; and (iii) respond to changes in industry standards and practices, in each case, in a cost-effective manner and on a timely basis. Failing to maintain demand for our services could have a material adverse effect on our business, financial condition and results of operations.

*Growth placing significant demands on our management and infrastructure*

Growth has placed, and will continue to place, significant demands on our management and our operational, technical and financial infrastructure, including the recent growth in refinance market volumes stemming from lower interest rates attributable to the economic uncertainty caused by the COVID-19 pandemic. Severe or excessive growth in market volumes could strain our ability to: (i) maintain reliable, high-quality service levels for our clients; (ii) develop and improve our operational, financial, technical and management controls; (iii) enhance our reporting systems and procedures; and (iv) recruit, train and retain highly-skilled personnel, any of which could have a material adverse effect on our business, financial condition and results of operations.

Qualified individuals in our industry are currently in high demand and there is no guarantee that we will be able to retain our key personnel or that we will be able to attract and retain new highly skilled individuals without incurring a significant increase in compensation costs to do so. The loss of key employees or our inability to attract and retain new highly skilled personnel could have a material adverse effect on our business, financial condition and results of operations.

*Failing to maintain field professional engagement*

We rely on our network of independent field professionals to provide service to our clients. If an increasing number of field professionals are uncomfortable proceeding with interior appraisal inspections or in person mortgage closings due to the COVID-19 pandemic or enhanced government regulation limits the ability of individuals on our field professional network to provide services in certain locations (e.g. by imposing local travel restrictions, etc.), it could constrain our ability to maintain a sufficient number of field professionals in certain geographies and/or increase our transaction costs. Accordingly, we may be unable to meet our service obligations to our clients or need to incur increased transaction costs to do so, either of which could have a material adverse effect on our business, financial condition and results of operations.

*Potential losses arising from field professional work product liability*

We manage a network of independent field professionals who produce a work product that our clients and underwriters rely on to make decisions. The COVID-19 pandemic has resulted in a number of significant changes to industry standards and processes, including the methods for performing various services. These changes, however, also create additional risks as certain traditional standards and processes are relaxed in an attempt to stop the spread of the COVID-19 pandemic and protect public safety. Should our field professionals produce a work product that is defective and results in a client and/or the underwriter incurring a financial loss, such parties may seek indemnification. If we are required to indemnify one or more clients and/or underwriters for work product liability and we are unable to obtain recourse from our field professionals or their errors and omissions insurance providers for the full amount of the loss incurred, it could have a material adverse effect on our business, financial condition and results of operations.

*Failing to maintain effective internal controls, including the inherent limitations in all control systems*

Controls may be circumvented as a result of our employees being placed in work-at-home environments, or for other reasons either directly or indirectly attributable to the COVID-19 pandemic. The design of any system of controls is also based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design procedures will succeed in achieving its stated goals under all potential conditions. If we fail to maintain effective internal controls, it could have a material adverse impact on our business, financial condition and results of operations.

*Inaccurate accounting estimates and judgments*

The impact of the COVID-19 pandemic has created significant global economic uncertainty and could require us to reassess certain assumptions and judgments related to, amongst other things, our forecast of future operating performance, the ability to sustain our operations and to assess the recoverability of our assets recorded in our statement of financial position. If the underlying estimates are ultimately proven to be incorrect, subsequent adjustments could have an adverse effect on our operating results and could require us to restate our historical financial statements.

*Ineffectiveness of our financial and operational risk management efforts*

We could incur substantial losses and our business operations could be disrupted if we are unable to effectively identify, manage, monitor and mitigate financial risks, such as credit risk, interest rate risk, liquidity risk, exchange rate risk and other market-related risk, as well as operational risks related to our business, assets and liabilities, including those brought about by the COVID-19 pandemic, which could have a material adverse effect on our business, financial condition and results of operations.

## **Financial Information Controls and Procedures**

### **Cautionary Note Regarding Forward-Looking Information**

This MD&A contains “forward-looking information” within the meaning of applicable Canadian securities laws. Words such as “aim”, “could”, “forecast”, “target”, “may”, “might”, “will”, “would”, “expect”, “anticipate”, “estimate”, “intend”, “plan”, “seek”, “believe”, “predict” and “likely”, and variations of such words and similar expressions are intended to identify such forward-looking information, although not all forward-looking information contains these identifying words.

The forward-looking information in this MD&A includes statements which reflect the current expectations of the Company’s management with respect to the Company’s business and the industry in which it operates and is based on management’s experience and perception of historical trends, current conditions and expected future developments, as well as other factors that management believes appropriate and reasonable in the circumstances. The forward-looking information reflects management’s beliefs based on information currently available to management, including information obtained from third-party sources, and should not be read as a guarantee of the occurrence or timing of any future events, performance or results. The forward-looking information in this MD&A includes, but is not limited to, statements related to:

- the impact of COVID-19 on our operations, services, employees, financial condition, capital and financial resources, and internal controls;
- the key factors that have a significant impact on our financial performance;
- anticipated economic conditions;
- the regulatory environment in which we operate;
- our competitive position relative to our competitors;
- anticipated industry and market trends, including the seasonality of our business; and
- our intentions with respect to the implementation of new accounting standards.

#### **Disclosure Controls and Procedures and Internal Controls over Financial Reporting**

Disclosure controls and procedures within the Corporation have been designed to provide reasonable assurance that all relevant information is identified to its President and Chief Executive Officer (“CEO”), and its Audit Committee to ensure appropriate and timely decisions are made regarding public disclosure. Internal controls over financial reporting have been designed by management, under the supervision of, and with the participation of the Corporation's CEO and CFO, to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and its preparation of financial statements for external purposes in accordance with IFRS. In the Corporation's 2021 filings, the Corporation's CEO and CFO certified, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and effectiveness of the Corporation's disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting. In the Corporation's 2021 filings, the Corporation's CEO and CFO certified, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design of the Corporation's disclosure controls and procedures and the design of internal controls over financial reporting. The Corporation's Audit Committee reviewed this MD&A and the interim unaudited condensed consolidated financial statements and notes, and the Corporation's Board of Directors approved these documents prior to their release.

#### **Changes in Internal Controls over Financial Reporting**

There have been no material changes to the Corporation's internal controls over financial reporting during the quarter ended June 30, 2022 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.