



**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED**

DECEMBER 31, 2017

April 30, 2018

This Management's Discussion and Analysis ("MD&A") contains management's interpretation of Starrex International Ltd.'s performance for the year ended December 31, 2017. While the financial statements reflect actual financial results, the MD&A explains these results from management's perspective and provides the Company's plans for subsequent periods ahead. This MD&A is dated April 30, 2018.

This MD&A should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2017 and related notes. Together, the MD&A and financial statements provide key information about the Company's performance and ability to meet its objectives.

This MD&A was reviewed and approved by the Board of Directors on April 30, 2018.

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## Important information about this MD&A

- The information in this MD&A is prepared as of April 30, 2018.
- The terms "we", "us," "our," and "Company" refer to Starrex International Ltd.
- This MD&A contains forward-looking information and statements regarding strategies, objectives, expected operations and financial results, which are based on the Company's current views of future events and financial performance. Key risks and uncertainties are discussed in the risks and risk management section of this MD&A. However, some risks and uncertainties are beyond the control of the Company and are difficult to predict. Actual future outcomes may substantially differ from the expectations stated or implied in this MD&A.
- The words "believe," "plan," "intend," "estimate," "expect," "anticipate" and similar expressions, as well as future conditional verbs, such as "will," "should," "would" and "could" often identify forward-looking statements.
- The words "plan" and "budget" are synonymous in the MD&A and are used interchangeably. Both describe the planned budget revenue and expenses for the related fiscal year.
- Unless otherwise specified, references to a year refer to the Company's fiscal year ended December 31, 2017.
- All financial information related to 2017 and 2016 has been prepared in accordance with International Financial Reporting Standards (IFRS). For more information, see the notes to the financial statements, in particular, Note 2 *Significant Accounting Policies*.
- Amounts shown in this MD&A are expressed in United States Dollars, unless otherwise specified.
- Due to rounding, some variances may not reconcile and analysis of components may not sum to the analysis for the grouped components.

## About Starrex International Ltd.

A summary of our business, core values and goals

Starrex International Ltd. ("Starrex") is an emerging financial services company, sitting inactive for many years until the end of November 2013. The Company completed its initial business acquisition in the third quarter of 2014.

Our primary business operations are conducted through our wholly-owned subsidiary, Property Interlink, LLC, a United States Colorado limited liability company ("Property Interlink"). Property Interlink is a licensed appraisal management company providing objective and comprehensive evaluations of residential real estate. An appraisal management company is defined as an independent entity through which mortgage lenders order residential real estate valuation services for properties on which they are considering extending loans to homebuyers.

As of December 31, 2017, Property Interlink is active in 31 jurisdictions in the United States. Property Interlink provides residential appraisals to third parties in the United States. In exchange for these contractual services, Property Interlink 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. Property Interlink also performs review services for repairs and new construction.

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

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 provides 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, resource and industrial business sectors.

Starrex shares are traded on the Canadian Securities Exchange under symbol STX and on the OTC QB in the United States under symbol STXMF.

Copies of all relevant financial documents, including the annual and interim Company filings to date, may be referenced on the regulatory filings website [www.sedar.com](http://www.sedar.com).

## Core Values

Starrex is committed to its shareholders by consistently focusing on continued growth in volume, as well as positive net income per share. This is achieved by well managed operations and executing strategic operations.

Our primary focus in Property Interlink is results oriented customer service, with employee development a cornerstone to the success of the subsidiary.



## Vision & Goals

- To acquire and invest in well managed, profitable businesses in a manner that creates value for all parties.
- To deliver the best level of service available in the appraisal management and real estate business sector.
- To provide business and financial transparency to our shareholders and investors.

For more information about Starrex, please see our website at [www.starrexintl.com](http://www.starrexintl.com).

## Operating Results

A summary of our financial results and discussion of revenue and expenses

Property Interlink has developed an internal staffing model which creates additional net profit for each appraisal that is completed. This model affords the Company more control over internal associates versus that over an independent contractor, which reduces turnaround time and improves process efficiency for appraisal management. This model was implemented during the first quarter of 2015, with generally increasing revenue earned per appraisal month over month.

The operations and revenue of Property Interlink are directly affected by United States housing market condition and trends.

Selected two-year quarterly information	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3* 2016	Q2* 2016	Q1* 2016
Income	1,815,566	2,069,582	2,129,528	1,651,863	1,733,693	1,839,948	1,698,277	1,335,990
Loss from continuing operations	(67,887)	(31,052)	(43,757)	(684,438)	(128,921)	(164,853)	(229,199)	(248,165)
Loss from discontinued operations	-	-	-	-	-	-	-	-
Loss and comprehensive loss	(67,887)	(31,052)	(43,757)	(684,438)	(128,921)	(164,853)	(229,199)	(248,165)
Total assets	2,756,367	3,074,285	3,289,123	3,273,265	3,915,057	4,047,008	4,050,910	4,230,945
Total liabilities	929,499	1,196,560	1,380,342	1,320,731	1,278,085	1,278,364	1,117,743	1,070,999
Shareholders' Equity	1,826,868	1,877,725	1,908,781	1,952,534	2,636,972	2,768,644	2,933,167	3,159,945
Net loss per share for continuing operations	(0.00)	(0.00)	(0.00)	(0.05)	(0.01)	(0.01)	(0.02)	(0.02)
Basic and diluted loss per share	(0.01)	(0.00)	(0.00)	(0.05)	(0.01)	(0.01)	(0.02)	(0.02)

**\*Financial Statements for this period have been Amended and Restated**

During 2017, Property Interlink reported \$7.575 million in revenue (operating income) (15,084 appraisals and final inspections completed) compared to \$6.521 (2016 - 13,648 appraisals and final inspections) million during 2016. Property Interlink's revenue was higher by \$1,054,237 for 2017 compared to 2016. This is directly attributable to the significant increased market share in key states.

Revenue in Starrex, the parent company, is comprised of interest income only. During the year ended 2017, interest income was \$91,746 compared to \$87,352 during the same period in 2016. The increase is directly associated with two interest-bearing promissory notes received as consideration for the sale of One Force Staffing, Inc. and Olympia Capital Management, Inc.

Overall expenses for the year ended December 31, 2017 (\$8,493,673) increased by approximately 13% over the year ended December 31, 2016 (\$7,509,786). Expenses in Property

Interlink are mostly normalized with expenses associated with professional services the only significant variable.

The Company incurred a loss before provision for income taxes of \$827,134 for the year ended December 31, 2017, compared to a loss of \$901,878 for the year ended December 31, 2016. On a per share basis, for the year ended December 31, 2017, the Company's losses from continuing operations were (\$0.06), compared to a loss of (\$0.05) from the previous year. It is important to understand the impact of the impairment expense. The subtraction of this expense would result in a net loss before provision for income taxes of \$310,751 compared to a loss of \$901,878 for the year ended December 31, 2016, an increase in net income of \$600,127. This is a direct result of the growth in Property Interlink and a reduction in professional expenses. Professional expenses were higher in 2016 due to increased professional services engaged for the review and restatement of certain financial statements during 2016.

	% of 2017 Expenses	2017	2016	Change	% Change
Salaries and benefits	71.97%	6,113,150	5,482,430	630,720	11.50%
Administrative & interest expense	11.92%	1,012,325	822,129	190,196	23.13%
Professional services	3.55%	301,405	654,893	(353,488)	-53.98%
Depreciation and amortization	2.59%	219,850	216,707	3,143	1.45%
Impairment expense	6.08%	516,383	-	516,383	0.00%
Management and corporate services	3.89%	330,560	333,627	(3,067)	-0.92%
Total expenses	100.00%	\$ 8,493,673	\$ 7,509,786	\$ 983,887	13.10%

## About our fees

**Appraisal fees** are charged to customers for each appraisal completed. These fees are dependent upon the state in which the property is located, as well as size of the property, whether the property is rural or non-rural and other factors common in the industry.

**Final review** fees are charged to customers when repairs or new construction is involved. Similar to appraisal fees, these are dependent upon the state in which the property is located, as well as other factors common in the industry.

During the year ended December 31, 2017, the Company's current asset position decreased by \$948,230 from \$2,404,752 at December 31, 2016 to \$1,456,522 as at December 31, 2017. This is primarily due to the impairment expense of \$516,383 on the note receivable. This note (See Note 8 of the audited annual financial statements) is classified as a current asset as at December 31, 2017 and was collected in the first quarter of 2018.

Overall total assets decreased by \$1,158,690 from \$3,915,057 as at December 31, 2016 to \$2,756,367 as at December 31, 2017.

<b>Selected Financial Information</b>	<b>Dec 31, 2017</b>	<b>Dec 31, 2016</b>	<b>Dec 31, 2015</b>
Revenue	\$ 7,666,539	\$ 6,607,908	\$ 5,897,604
Profit (loss) from continuing operations	\$ (827,134)	\$ (771,138)	\$ (849,120)
- per share (based and diluted)	(0.06)	(0.05)	(0.06)
Net comprehensive profit (loss)	\$ (827,134)	\$ (771,138)	\$ (974,401)
-per share (based and diluted)	(0.06)	(0.05)	(0.07)
Total Assets	\$ 2,756,367	\$ 3,915,057	\$ 4,271,665
Total Liabilities	\$ 929,499	\$ 1,278,085	\$ 863,555
Non-current Liabilities	\$ 101,102	\$ 168,974	\$ 333,675
Total Shareholder's Equity	\$ 1,826,868	\$ 2,636,972	\$ 3,408,110

The Company was relatively inactive until the end of 2013 – except for a private placement financing for gross proceeds of \$900,000 CAD, the issuance of shares to settle debts of \$234,826 CAD and a change of management and directors in the fourth quarter of 2013. Management of the Company then embarked on a search for businesses to acquire and, in the third quarter of 2014, acquired three operating subsidiaries in the United States and completed a concurrent private placement financing for gross proceeds of \$991,979 CAD. In the fourth quarter of 2014, the Company acquired a fourth subsidiary in the United States. In the second quarter of 2015, management decided to divest two of the subsidiaries recently acquired, implementing that decision in the third quarter.

During 2017, Management continued the search for complementary acquisitions that align with the Company's Vision and Mission Statement and subsequently signed a non-binding Letter of Intent to purchase 100% of a credit reporting agency in the United States. This acquisition closed during the first quarter of 2018.

## Revenue and Key Performance Metrics

One of the Key Performance Indicators ("KPI") in Property Interlink is the calculation of revenue derived from each appraisal completed and their associated completion times. When monitoring this metric, the wages and independent contractor expenses are subtracted from the total revenue. As the dynamic business model shifts from assigning appraisals to independent contractors versus employees of the Company, this metric will increase and, subsequently, overall net income to the Company will increase.

Revenue for Property Interlink for the twelve-month period ended December 31, 2017 (\$7,574,793), was \$1,054,237 higher than the year ended 2016 (\$6,520,556). Property Interlink not only performs appraisals for real estate mortgages but also provides inspections, which require significantly less effort and results in a lower fee collected.

The table below depicts key metrics for the Company and illustrates the organic growth of the operation.

	2017	2016	2015
Volume	15,084	13,648	12,864
Average Margin	35%	32%	35%
Peak Monthly Volume	1,518	1,374	1,365

The following depicts changes in net appraisal revenue, as well as monthly appraisal volume for Property Interlink.



Since the acquisition of Property Interlink in July of 2014, average volume has increased from 730 to 1,257 appraisals per month, reaching a peak of 1,518 in September of 2017. Seasonal cycles in the housing market historically trend lower from October through January and higher during the second and third quarters.

Net revenue per appraisal at the time of acquisition was 27% of gross revenues per appraisal. With the shift in business model to staff appraisals, margins initially increased and then have averages 35% for 2017. The graph above depicts total number of appraisals performed month over month, as well as the difference between revenue received for appraisals and expenses directly associated with the completion of the appraisals.

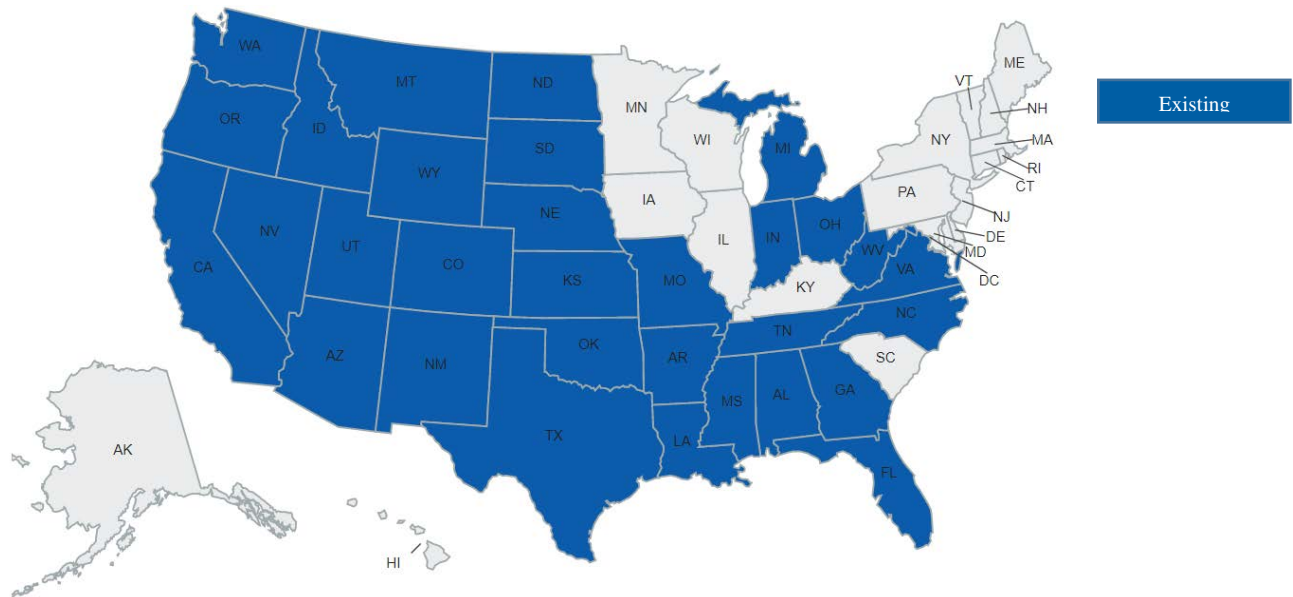
### Geographic Concentration

A summary of appraisal licenses and future planning

Property Interlink is currently licensed in thirty-one states and/or jurisdictions in the United States. The Company will evaluate licensing as needed to support the geographical footprint of its client base, as well as cross-marketing efforts to align with the latest acquisition of Starrex International (see *Subsequent Events*).

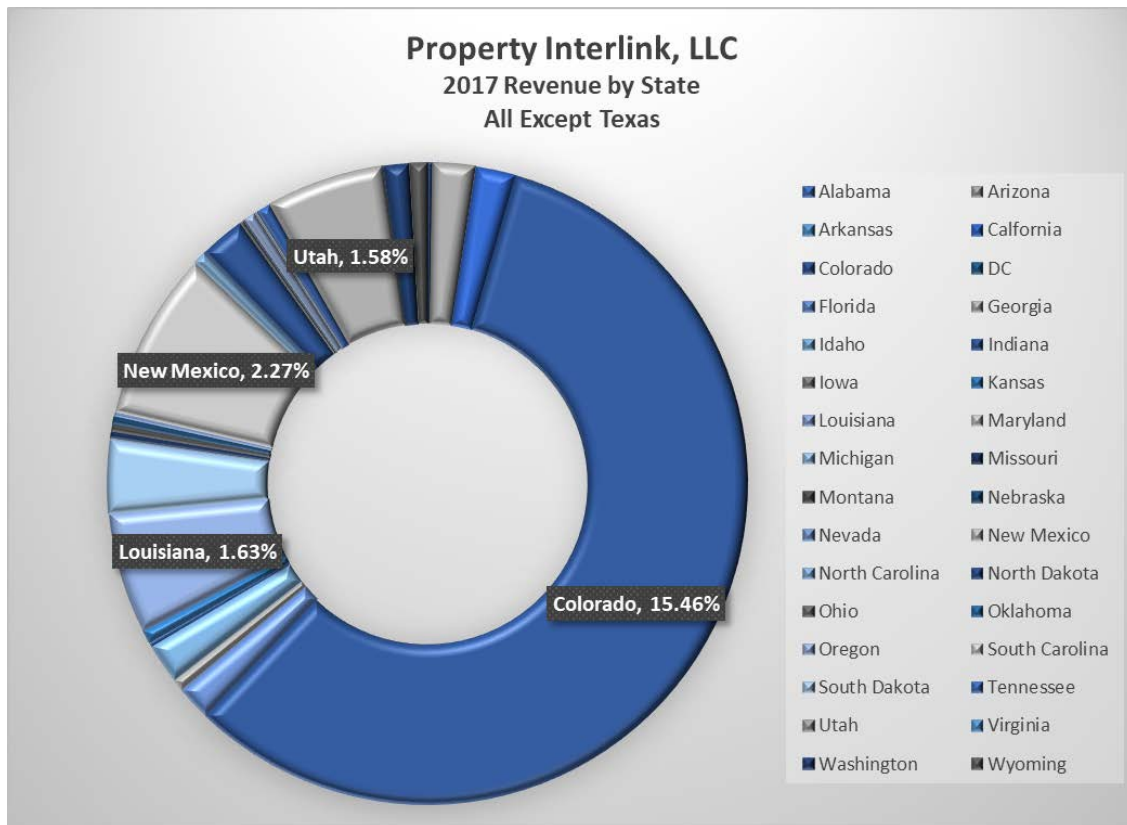
#### Starrex currently operates in:

Alabama	Louisiana	Oklahoma
Arizona	Michigan	Oregon
Arkansas	Missouri	South Dakota
California	Montana	Tennessee
Colorado	Nebraska	Texas
District of Columbia	Nevada	Utah
Florida	New Mexico	Virginia
Georgia	North Carolina	Washington
Idaho	North Dakota	West Virginia
Indiana	Ohio	Wyoming
Kansas		



Appraisals in Texas comprised 73.21% (2016 – 75.27%) of the total volume in 2017 with Colorado comprising 15.46% (2016 – 15.13%). Property Interlink currently works most closely with a large mortgage originations company domiciled in Houston, Texas, which generated \$5,545,395 (2016 - \$4,201,866) in revenue for the year ended 2017. Colorado follows with \$1,171,133 in revenue in 2017 (2016 - \$986,499).

The chart below depicts revenue by state for Property Interlink for the year ended December 31, 2017.



### Expenses

During 2017, our expenses were \$8.49 million (2016 - \$7.5 million). Professional expenses for the year were \$301,405, a decrease of \$353,488 over 2016 (\$654,893). This is largely due to the cessation of communications with the Ontario Securities Commission regarding the refiling of certain financial statements and MD&A.

Depreciation and amortization expenses comprised \$219,850 for the year ended 2017 (2016 - \$216,707).

As a percent of revenue, appraisal expenses (commissions) were approximately 64.1% for the period (\$4,855,139). Property Interlink consistently and diligently recruits new staff appraisers to facilitate the staff appraisal model instead of utilizing independent contractors to perform these services, because realized revenue to the Company is significantly decreased by using independent contractors.



## Liquidity and financial position

A discussion of our liquidity, cash flows, financing activities and changes in our financial position

### Liquidity

#### Cash

At December 31, 2017, Starrex held \$572,548 in cash, compared to \$97,975 as at December 31, 2016. Working and operating capital at December 31, 2017 was \$628,125 compared to \$1,295,637 at the prior year-end. This is primarily due to the impairment of a note receivable.

At December 31, 2017, the Company had current assets of \$1,456,522 (\$2,404,752 as at December 31, 2016) and current liabilities of \$830,955 (\$1,109,115 as at December 31, 2016). The primary variance in assets is attributable to the reduction of the note receivable due to impairment. The decrease in current liabilities is directly attributable to the fulfillment of the note payable obligation.

As at December 31, 2017, the Company had cash and cash equivalents of \$572,548 (December 31, 2016 - \$97,975) available to satisfy current liabilities of \$830,955 (December 31, 2016 - \$1,109,115).

#### Cash flows

During 2017, the Company used \$325,235 in cash flows associated with operating activities, which is entirely attributable to the overhead in the parent company. The Company also received \$874,646 in investing activities, which is a result of the fulfillment of the note receivable. During the same period last year, the Company used \$18,576 in investing activities to purchase equipment and intangible assets, which includes proprietary software developed to support Property Interlink's appraisal management platform. The Company used \$74,837 for financing activities during 2017 (2016 - \$65,431), most of which is attributable to the repayment of the note payable.

#### Liabilities

Current liabilities at the end of the current reporting period were \$828,397, compared with \$1,109,115 at the prior year-end. The variance of \$208,718 is attributable to the decrease in deferred revenue, as well as the fulfillment of the note payable. Accounts payable and accrued liabilities were relatively unchanged; deferred revenue for the period ending December 31, 2017 was \$77,714 compared to \$253,035 at December 31, 2016. Deferred revenue in Property Interlink is comprised of prepaid amounts for appraisals that were not completed as of the applicable date.

### Financial position

The following is a discussion of the significant changes in our Statement of financial position.

#### Trade and other receivables

Trade and other receivables were \$862,802 at December 31, 2017 (\$2,235,446 at December 31, 2016).

Of the total outstanding receivables at the 2017 year-end, \$583,617 is a promissory note associated with the sale of Olympia Capital Management, Inc. Current trade accounts receivable as at December 31, 2017 were \$279,185 compared to \$305,446 as at December 31, 2016, showing an improvement in collections.

For additional information on Notes Receivable, see Note 8 of the annual consolidated financial statements.

### Fourth Quarter

Due to the seasonal cycle in the housing market, the fourth quarter tends to be one of the lowest period in terms of the number of appraisals and reviews completed. Accordingly, revenue in the fourth quarter of 2017 declined to \$1,793,386 from \$2,069,582 in the third quarter. The cyclical volume is illustrated below.

	Q1	Q2	Q3	Q4
Volume	3160	4073	4230	3621

The net comprehensive loss in the fourth quarter of 2017 was \$67,887. Actuarial expenses were \$57,743, which is significantly higher than the average quarterly expense of \$26,125 and attributable to audit expenses. Additionally, expenses associated with travel were \$18,148, which is higher than the average quarterly expense of \$6,49 due to due diligence investigations during the fourth quarter regarding an acquisition which was completed during the first quarter of 2018.

## 2017 Budget Approach

The Company is focused on increasing shareholder value, as well as fiscal responsibility, while investing in the acquisition of real estate-based entities that complement Property Interlink's appraisal management business.

## Segmented Information

The Company organizes its reporting structure into two reportable segments. For management purposes, the Company is organized into segments based on their products and services provided. Management monitors the operating results of each segment separately for the purpose of making decisions about resource allocation and performance assessment.

Selected financial information as at December 31, 2017 is presented by segment as follows:

	Property Interlink, LLC	Corporate	Total
Current assets	\$ 235,941	\$ 636,964	\$ 872,905
Note receivable	-	583,617	583,617
Property and equipment	192,598	-	192,598
Intangible assets	486,115	-	486,115
Goodwill	621,132	-	621,132
<b>Total Assets</b>	<b>\$ 1,535,786</b>	<b>\$ 1,220,581</b>	<b>\$ 2,756,367</b>
Current liabilities	\$ 464,986	\$ 363,411	\$ 828,397
Long-term liabilities	101,102	-	101,102
<b>Total liabilities</b>	<b>\$ 566,087</b>	<b>\$ 363,411</b>	<b>\$ 929,499</b>
Revenues	\$ 7,574,793	\$ 91,746	\$ 7,666,539
Expenses	\$ 7,450,782	\$ 1,042,891	\$ 8,493,673
Operating income (loss) before provision for income tax	\$ 124,010	\$ (951,144)	\$ (827,136)

## Use of Financial Instruments

The Company has not entered into any conventional or other financial instruments designed to minimize its investment risk, currency risk or commodity risk.

No off-balance sheet arrangements have been established nor are there any pending plans to do so.

The limited scale of the Company's current and foreseeable operations does not warrant consideration of any special financial undertakings or instruments. (See Note 2 of the Annual Consolidated Financial Statements.)

## Goodwill

The Company's annual goodwill impairment testing determined that the carrying value of the goodwill included in each of the Company's reportable segments (Note 7) did not exceed their value in use and as a result the Company did not report an impairment charge.

## Capital Disclosures

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

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

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

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

## Income Taxes

The Company reported \$101,102 (2016 - \$168,974) in deferred tax liabilities at December 31, 2017. Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Specifically, the Company recognized carrying values for the fixed and intangible assets through the acquisition of Property Interlink that had zero tax value. This resulted in the deferred tax liability reported as at December 31, 2017 and 2016.

The Company also carries the following in unrecognized tax assets as year-end:

	2017	2016
Deferred income tax		
Canadian net capital loss carried forward	\$ 2,211,000	\$ 1,906,290
Canadian non-capital losses carried forward	\$ 4,096,000	\$ 2,602,500
Share issuance costs	\$ (4,000)	\$ 11,010

## Promissory Notes

During the second quarter of 2017 the promissory note for the assets of One Force Staffing, Inc. was collected including accrued interest. An impairment expense of \$516,383 was recognized on the promissory note received for the assets of Olympia Capital Management, Inc. during the first quarter of 2017. Management subsequently collected the balance outstanding during the first quarter of 2018.

## Related Party Transactions

AmCap Mortgage Ltd., a related customer (by Director) accounted for \$4,358,135 (2016 - \$4,201,866) of revenue to the Company. As at December 31, 2017, \$35,557 (2016 - \$36,240) is included in accounts receivable on the consolidated statements of financial position. The Company also incurred \$330,560 in management fees in 2017 (2016 - \$333,500) to the Chief Executive Officer, Chief Financial Officer and Chief Operating Officer.

## Subsequent Events

On February 9, 2018, the Company completed the acquisition of MFI Credit Solutions, LLC, a credit reporting agency in California (USA) engaged in the business of providing individual credit reports primarily for mortgage-related activities. All of the assets of the entity were acquired for a consideration of \$1,500,000 USD.

The Corporation also granted to an outside consultant 50,000 options to purchase common shares of the Corporation with an option price of \$.51 CDN. The options expire February 8, 2023 and vest immediately.

Effective January 23, 2018, the Company executed a Note Purchase Agreement. In return for an aggregate sum of \$500,000, the Company issued to the lender a note that is convertible into common shares with a conversion price of \$0.73, and with a maturity date of January 22, 2019.

Effective February 6, 2018 the Company received \$650,000 associated with the sale of assets of Olympia Capital Management to fulfill the outstanding note receivable.

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## Critical accounting estimates

Judgments, estimates and assumptions related to preparing IFRS financial statements.

The preparation of financial statements consistent with IFRS requires that management make judgments, estimates and assumptions that affect reported amounts of assets and liabilities as at the date of the financial statements, as well as the reported amounts of the revenues and expenses for the periods. Although the 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 the consolidated financial statements are as follows:

- Goodwill is 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. (See Note 7 of the 2017 annual consolidated financial statements.)
- Significant judgment is involved in the determination of useful life for the computation of depreciation of equipment and amortization of intangible assets. No assurance can be given that actual useful lives will not differ significantly from current assumptions.
- Significant judgment is involved in the assessment of the recoverable amount of the notes receivable. As at December 31, 2017, the note debtor was in compliance with the terms of the amended promissory note receivable. The Company collected all required interest payments. (See Note 8 of the 2017 annual consolidated financial statements.)
- 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 requires a high degree of judgment and include estimates for future operating performance, discount rates, technology migration factors and terminal value rates.

## Disclosure Controls and Procedures

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 December 31, 2017 annual auditing period, concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company 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 considered to be 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 cheques and completing and recording wire requests. As of December 31, 2017, 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 risk management

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

### Concentration Risk

The Company has certain customers whose revenue individually represented 10% or more of the Company's total revenue. For the year-ended December 31, 2017, one customer accounted for 66% of the Company's total revenue (2016 – 64%). Additionally, two customers accounted for 37% of the Company's accounts receivable balances as at December 31, 2017 (2016 – 12%)

### 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 are implemented, as well as ensuring that compliance measures are undertaken.

### Credit Risk

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

For accounts receivable, we have strong credit policies and a vendor management program in place. Our general payment terms are "due upon receipt." However, we may be required to impair our balances for accounts receivable based upon quarterly analyses for collectability. As at December 31, 2017, no allowance for doubtful accounts was recorded (December 31, 2016 - \$Nil).

### Liquidity Risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available capital in order to meet its liquidity requirements. As at December 31, 2017, the Company had cash and cash equivalents of \$572,548 (December 31, 2016 - \$97,975) available to satisfy current liabilities of \$828,397 (December 31, 2016 - \$1,109,115). The Company has received accommodations from certain creditors and suppliers and is planning a private placement financing to address its working capital requirements and liquidity issues.

### Financial Risk

The Company maintains 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. The Company engages qualified professional advisors to audit its annual financial statements and provide advice as required to provide reasonable assurance of financial reporting and to assist in addressing any errors or inconsistencies.

### 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.

### Foreign Currency Risk

The Company is exposed to foreign currency risk on fluctuations related to cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and stock options that are denominated in a foreign currency. As at December 31, 2017, the Company held immaterial amounts of cash and cash equivalents and accounts receivable in CAD currency and considers foreign currency risk to be low.

	December 31,		December 31,	
	2017		2016	
Cash and cash equivalents	\$ CDN	772	\$ CDN	61
Accounts receivable		394		495
Accounts payable and accrued liabilities		(289,675)		(215,185)
<b>Total</b>	<b>\$ CDN</b>	<b>(288,509)</b>	<b>\$ CDN</b>	<b>(214,629)</b>

### Federal and State Regulation

As at year-end 2017, 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 thirty-one 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 you 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. 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.

Due to the fact the Company has not selected any specific additional target businesses, investors will be unable to ascertain the merits or risks of any particular target business' operations.

## Internal Control over financial reporting

A summary of our internal control review results

During the year, the Company's internal control processes are reviewed and updated as necessary. During the year ended December 31, 2017, no significant deficiencies in internal control were identified.

Due to the fact that the Company was required to restate its audited financial statements as a result of the determination of the value of share consideration paid and price allocations made on acquisitions and the determination of change in control with respect to divested subsidiaries, additional controls have been put in place for mergers, acquisitions and divestitures. This may include the engagement of third party professionals to provide legal and financial opinions for future acquisitions and divestitures.

## Share Capital

As at December 31, 2017, the share capital of the Company continued to be comprised exclusively of common shares. 100,000 additional shares were issued in 2017, the year under review pursuant to the exercise of stock options. 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. As of April 30, 2018, the Company has 14,580,827 shares outstanding.

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

Issued	Number of Common shares		Amount
<b>Balance, December 31, 2015 and 2016</b>	<b>14,480,827</b>	<b>\$</b>	<b>6,745,651</b>
Shares Issued - exercise of options	100,000		34,060
<b>Balance, December 31, 2017</b>	<b>14,580,827</b>	<b>\$</b>	<b>6,779,711</b>

The Company has a stock option plan in respect of which it has granted options, generally with 5-year terms, on 650,000 shares (details of which are summarized in a table below). The Company's stock option plan (the "Plan") enables its directors, officers, employees, consultants, and advisors to acquire common shares of the Company from treasury at any time within a fixed period of time from the date on which the options are granted (usually 5 years) at an exercise price set at the time the options are granted. Under the terms of the Plan, the directors can grant options totaling up to 10% of the number of common shares outstanding. The following table shows the number of options currently outstanding and their respective exercise prices and expiry dates. All outstanding options are fully vested.

	Common Shares Under option	Number of Options Vested	Exercise Price <sup>(5)</sup>	Expiry Date
Granted April 17, 2014	550,000 <sup>(1)</sup>	550,000	0.19 <sup>(3)</sup>	April 16, 2019
Granted August 25, 2015	100,000 <sup>(2)</sup>	100,000	1.27 <sup>(4)</sup>	September 1, 2020
	650,000	650,000	0.33	

(1) Directors of the Company hold these options.

(2) An Executive Officer of the Company holds these options.

(3) The exercise price is CAD \$0.25.

(4) The exercise price is CAD \$1.70.

(5) Exercise prices converted from Canadian dollars to United States dollar (CA\$ = UDS\$) as at December 31, 2017.

## Commitments and Contingencies

The Company conducts operations from leased facilities in Texas and Colorado, all of which are classified as operating leases. The following is a schedule by years approximate of future minimum lease payments required under operating leases that have initial or remaining noncancelable terms in excess of one year as of December 31, 2017.

Year ending December 31:

2018	\$175,800
2019	\$133,400
2020	\$137,500
2021	<u>\$82,200</u>
Total	\$528,900