



**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED**

DECEMBER 31, 2019

June 10, 2020

This Management's Discussion and Analysis ("MD&A") contains management's interpretation of Starrex International Ltd.'s performance for the year ended December 31, 2019. 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 June 10, 2020.

This MD&A should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2019 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 June 10, 2020.

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## Important information about this MD&A

- The information in this MD&A is prepared as of June 10, 2020.
- 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, 2019.
- All financial information related to 2019 and 2018 has been prepared in accordance with International Financial Reporting Standards (IFRS). For more information, see the notes to the audited annual consolidated financial statements of the Company for the year ended December 31, 2019, 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.

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

Property Interlink is a licensed appraisal management company ("AMC") providing oversight and management of the appraisal process between lending institutions and appraisers. Appraisal management companies help consumers obtain unbiased reports for financing and loan servicing. As of December 31, 2019, Property Interlink is active in forty jurisdictions in the United States.

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

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

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

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

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

Starrex is 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 both Property Interlink and MFI is results oriented customer service. Employee development is a cornerstone to the success of the subsidiaries.



## Vision & Goals

- To acquire and invest in well managed, profitable businesses in a manner that creates value for all parties.
- To deliver the highest level of service available in the appraisal management, credit reporting 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

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

Selected two-year quarterly information	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Income	2,860,808	3,418,594	3,336,687	2,460,200	2,284,041	2,586,343	2,684,514	2,109,949
<b>Income/Loss from continuing operations</b>	<b>(636,586)</b>	<b>(129,690)</b>	<b>27,819</b>	<b>(301,094)</b>	<b>(436,411)</b>	<b>(128,927)</b>	<b>(90,145)</b>	<b>(156,107)</b>
<b>Loss and comprehensive loss</b>	<b>(636,586)</b>	<b>(129,690)</b>	<b>27,819</b>	<b>(301,094)</b>	<b>(436,411)</b>	<b>(128,927)</b>	<b>(90,145)</b>	<b>(156,107)</b>
Total assets	3,299,081	3,492,280	3,822,136	3,516,095	3,157,354	3,404,741	3,572,684	3,605,670
Total liabilities	2,456,205	2,063,274	2,263,440	2,586,963	1,940,731	1,915,614	1,954,630	1,783,409
Shareholders' Equity	842,876	1,429,006	1,558,696	929,132	1,216,623	1,489,127	1,618,054	1,822,262
Net loss per share for continuing operations	(0.04)	(0.01)	0.00	(0.02)	(0.03)	(0.01)	(0.01)	(0.01)
Basic and diluted loss per share	(0.04)	(0.01)	0.00	(0.02)	(0.03)	(0.01)	(0.01)	(0.01)

During 2019, Property Interlink reported \$8.3 million in revenue (revenue from contracts with customers) received from the completion of 15,683 appraisals and inspections compared to \$7.3 million (2018 – 14,247 appraisals and final inspections) in 2018. Revenue increased by \$1,001,550, attributable to the growth experienced by Property Interlink's largest customers. (See Segment Revenue, Expenses and Key Performance Metrics).

MFI Credit Solutions, acquired during the first quarter of 2018, reported \$3.7 million in revenue compared to \$2.3 million in 2018 from contracts with customers associated with consumer credit reports and ancillary services.

Revenue in Starrex, the parent company is comprised of interest income only. During the year ended 2019, interest income was \$Nil compared to \$9,644 as of December 31, 2018. The cessation in interest income is directly associated with the repayment of the interest-bearing promissory note received in consideration for the sale of Olympia Capital Management Inc.

Operating activity in Reliable Valuation Service began during the first quarter of 2019 and reported \$66,607 in revenue for the year ended December 31, 2019 (2018 - \$Nil) and \$36,967 in expenses during the same period (2018 - \$Nil).

Expenses in Property Interlink, LLC were \$1,003,188 higher in 2019 over reported expenses of \$7,729,400 during 2018. This is attributable to increases in salaries and commissions as well as corporate allocation.

MFI Credit Solutions reported \$3,787,760 in expenses for the year ended December 31, 2019 (2018 - \$2,490,180), which includes \$2,278,454 in costs associated with credit reports, along with \$21,642 in costs associated with consumer tax reports.

Corporate expenses in Starrex increased by \$201,516 over 2018 (2018 - \$357,579). This increase is primarily due to the share-based expense accrual of \$263,614 reported in December of 2019.

	% of 2019 Expenses	2019	2018	Change	% Change
Salaries and benefits	60.59%	7,946,640	6,577,757	1,368,883	20.81%
Administrative & interest expense	11.30%	1,482,080	1,722,569	(240,489)	-13.96%
Credit bureau fees	17.37%	2,278,454	1,318,305	960,149	72.83%
Tax reporting fees	0.17%	21,642	31,133	(9,491)	-30.49%
Professional services	2.38%	311,838	142,992	168,846	118.08%
Management and corporate services	2.43%	319,310	330,560	(11,250)	-3.40%
Depreciation and amortization	3.15%	412,985	315,878	97,107	30.74%
Share-based payments	2.61%	342,891	138,345	204,546	147.85%
<b>Total expenses</b>	<b>100.00%</b>	<b>\$ 13,115,840</b>	<b>\$ 10,577,539</b>	<b>\$ 2,538,301</b>	<b>24.00%</b>

### 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 property and 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.

**Credit Reporting** fees are charged to customers for each credit report provided. The fees are dependent upon published pricing structures and is governed by the Fair Credit Reporting Act.

During the year ended December 31, 2019, the Company's current asset position increased by \$130,362 from \$673,386 at December 31, 2018 to \$803,748 at December 31, 2019. The small increase is due to increases in both prepaid expenses as well as accounts receivable. With growth in each subsidiary, increases in accounts receivables are expected.

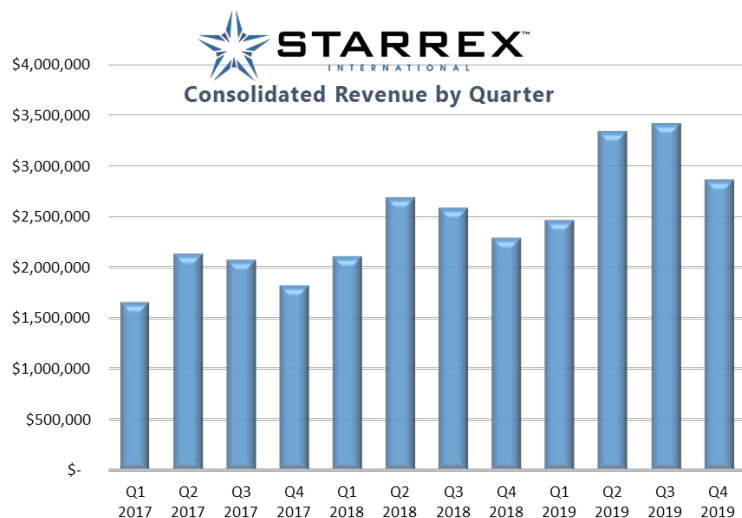
Overall assets increased from \$3,157,354 as at December 31, 2018 to \$3,299,081 as at December 31, 2019, a difference of \$141,721. Depreciation and amortization expenses reduced the net value of property and equipment, along with intangible assets by \$270,989 while right-of-use assets were introduced in 2019. This amount was \$282,352.

<b>Selected Financial Information</b>	<b>Dec 31, 2019</b>	<b>Dec 31, 2018</b>	<b>Dec 31, 2017</b>	<b>Dec 31, 2016</b>
Revenue	\$ 12,076,289	\$ 9,664,847	\$ 7,666,539	\$ 6,607,908
Profit (loss) from continuing operations	\$ (1,039,551)	\$ (811,590)	\$ (827,134)	\$ (771,138)
- per share (based and diluted)	\$ (0.07)	\$ (0.06)	\$ (0.06)	\$ (0.05)
Net comprehensive profit (loss)	\$ (1,039,551)	\$ (811,590)	\$ (827,134)	\$ (771,138)
-per share (based and diluted)	(0.07)	(0.06)	(0.06)	(0.05)
Total Assets	\$ 3,299,081	\$ 3,157,354	\$ 2,756,367	\$ 3,915,057
Total Liabilities	\$ 2,456,205	\$ 1,940,731	\$ 929,499	\$ 1,278,085
Non-current Liabilities	\$ 138,977	\$ -	\$ 101,102	\$ 168,974
Total Shareholder's Equity	\$ 842,876	\$ 1,216,623	\$ 1,826,868	\$ 2,636,972

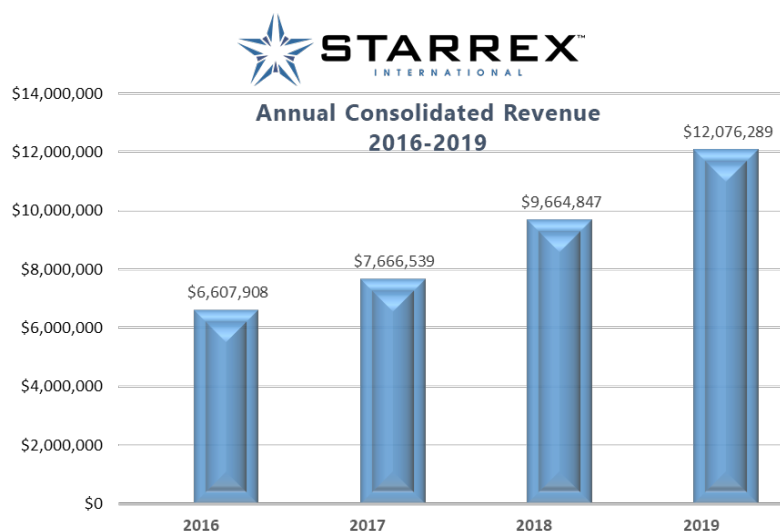
The Company was relatively inactive until the end of 2013 – except for a private placement financing for gross proceeds of \$900,000 CAD, the issuance of shares to settle debts of \$234,826 CAD and a change of management and directors in the fourth quarter of 2013. Management of the Company then embarked 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. On February 9, 2018, the Company completed the acquisition of MFI Credit Solutions, LLC, a Wyoming limited liability company. The Company acquired the assets of MFI Credit Solutions, LLC in exchange for \$1,500,000.

## Revenue Growth



Revenue for Starrex International, Ltd. closely follows that of the United States housing market, as all three wholly owned subsidiaries are mortgage-based support companies. The fourth quarter of each year and the first quarter directly following experience lower mortgage activity volumes, and subsequently lower revenue, than the balance of the year. Typically, home sales and mortgage applications are lower during the winter than any other time, resulting in lower volume of appraisals and credit reports ordered.



As at December 31, 2019, Starrex reported \$12,076,289 in revenue, an increase of 25% over 2018 (\$9,664,847) and a 58% increase over 2017 (\$7,666,539).

The increase of \$2,411,442 represents growth activity in both appraisal and credit reporting activity during 2019.

Since the initial acquisitions in 2014, Starrex revenue has increased 447%.

## Supplementary Financial Measures

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

The charts below illustrate the Company's performance based on the above measurements:

	2019	2018
Revenue	\$ 12,076,289	\$ 9,664,847
Salaries and benefits	7,946,640	6,577,757
Credit bureau fees	2,278,454	1,318,305
Tax reporting fees	21,642	31,133
General and administrative	1,447,254	1,637,171
Professional fees	311,838	142,992
Management and corporate services	319,310	330,560
Depreciation and amortization	412,985	315,878
Accretion expense	-	57,260
Share-based payments	342,891	138,345
Interest expense	34,826	28,138
<b>Total expenses</b>	<b>\$ 13,115,840</b>	<b>\$ 10,577,539</b>
<b>Net Income</b>	<b>\$ (1,039,551)</b>	<b>\$ (912,692)</b>
Tax Provision	\$ -	\$ 101,102
<b>Net Comprehensive Loss</b>	<b>\$ (1,039,551)</b>	<b>\$ (811,590)</b>
Plus Tax Provision	\$ -	\$ (101,102)
Less interest expense	\$ 34,826	\$ 28,138
Less depreciation and amortization	\$ 412,985	\$ 315,878
<b>EBITDA</b>	<b>\$ (591,740)</b>	<b>\$ (568,676)</b>
Less accretion expense	\$ -	\$ 57,260
Less share-based payment expense	\$ 342,891	\$ 138,345
<b>Adjusted EBITDA</b>	<b>\$ (248,849)</b>	<b>\$ (373,071)</b>

The total comprehensive loss for the year ended 2019 was \$1,039,551 compared to \$811,590 in 2018.

For the year ended December 31, 2019, the Company reported \$447,811 in total expenses for interest, depreciation, amortization and taxes (2018 - \$242,914), which resulted in EBITDA of (\$591,740) for 2019 and (\$568,676) for 2018.

Adjusted EBITDA for the year ended December 31, 2019 was (\$248,849) compared to (\$373,071) in 2018. Expenses relating to share-based payments and accretion were \$342,891 for 2019 and \$138,345 for 2018.

A reconciliation of these measurements to the Consolidated Statements of Loss and Comprehensive Loss have been illustrated herein.

## Segment Revenue, Expenses and Key Performance Metrics

### MFI Credit Solutions, LLC

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

Revenue for MFI Credit Solutions for the year ended December 31, 2019 was \$3,681,309 (2018 - \$2,328,380), which is derived from the delivery of consumer credit reports, consumer tax reports and related information gathering activities. Revenue in MFI Credit Solutions is recognized as *Revenue from Contracts with Customers, IFRS 15*, which was adopted effective January 1, 2018 by the Company.

As of December 31, 2019, current accounts receivables were \$160,361 (December 31, 2018 - \$156,625) with customer invoices outstanding 17 days before collecting (2018 – days to collect 18).

### Property Interlink, LLC

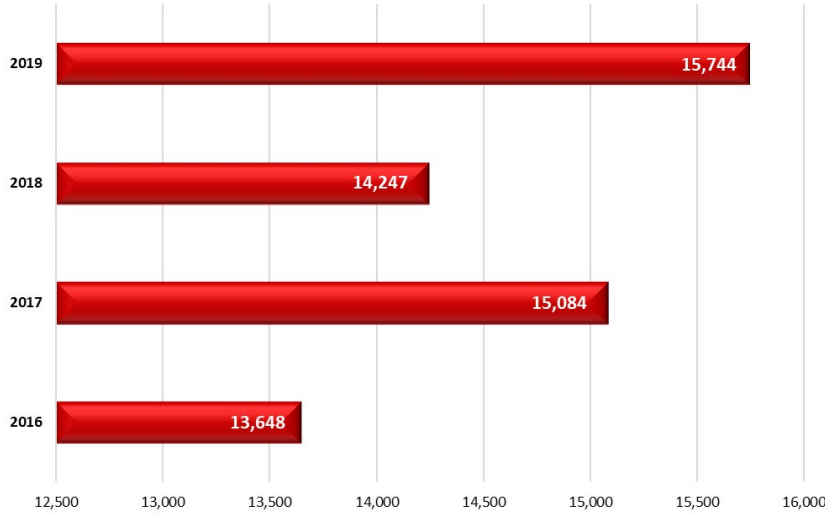
Overall expenses in Property Interlink for the year ended December 31, 2019, were \$8,732,588, an increase of \$1,003,188 over the same period in 2018. During the fourth quarter of 2019, Property Interlink reported \$2,128,639 in expenses compared to \$1,949,843 during the same period in 2018, an increase of \$178,850 in additional salaries and benefits supporting growth in the Company.

Revenue for Property Interlink for the year ended December 31, 2019, was \$8,328,373 compared to \$7,326,823 during the same period last year, an increase of \$1,001,550. For the three-month period ended December 31, 2019, Property Interlink reported revenues of \$2,405,682 compared to \$1,701,235 for the three-months ended December 31, 2018.

Since the acquisition of Property Interlink in July of 2014, average volume has increased from 730 to 1,312 (2018 – 1,187) appraisals per month (yearly average), reaching a peak of 1,539 in May of 2019. Seasonal cycles in the housing market historically trend lower from October through January and higher during the second and third quarters.



### Appraisal Activity by Year

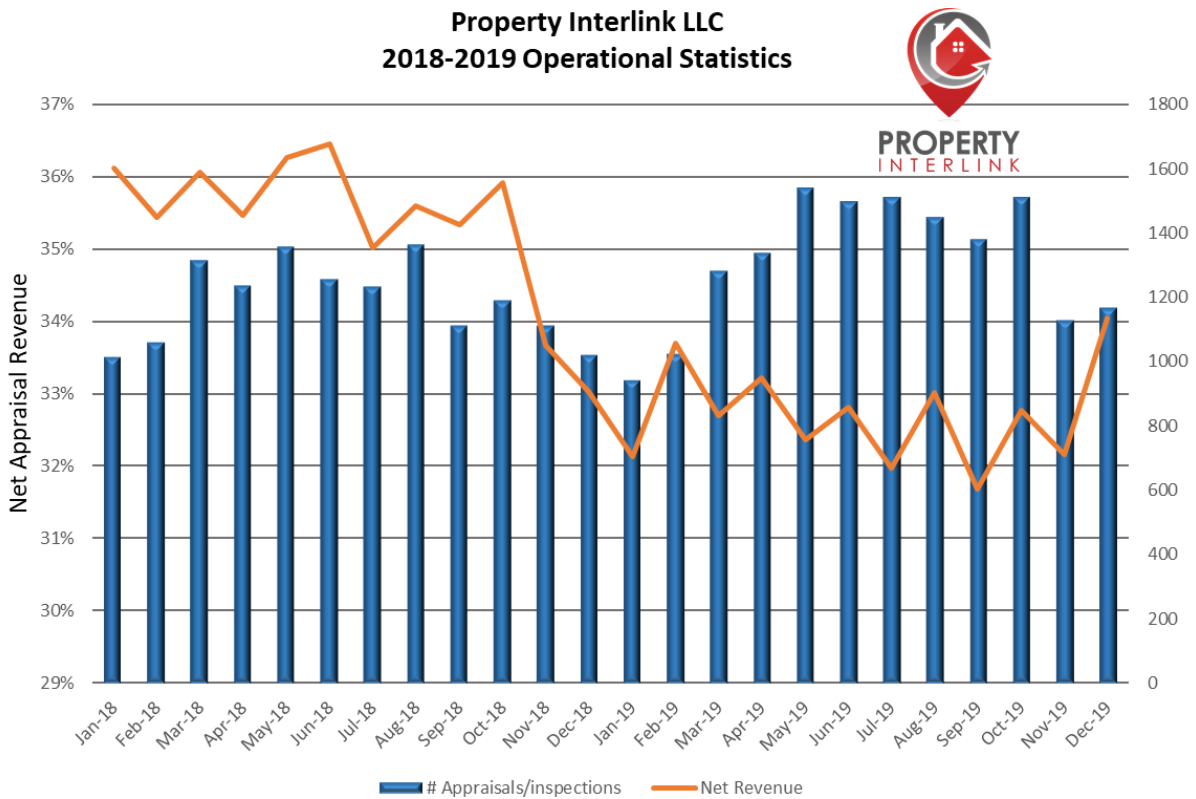


For the three months ended December 31, 2019, Property Interlink completed 3,800 appraisals and inspections compared to 3,320 during the same period last year.

For the twelve months ended December 31, 2018, the Company completed 15,744 appraisals and inspections compared to 14,247 for the twelve-months ended December 31, 2018.

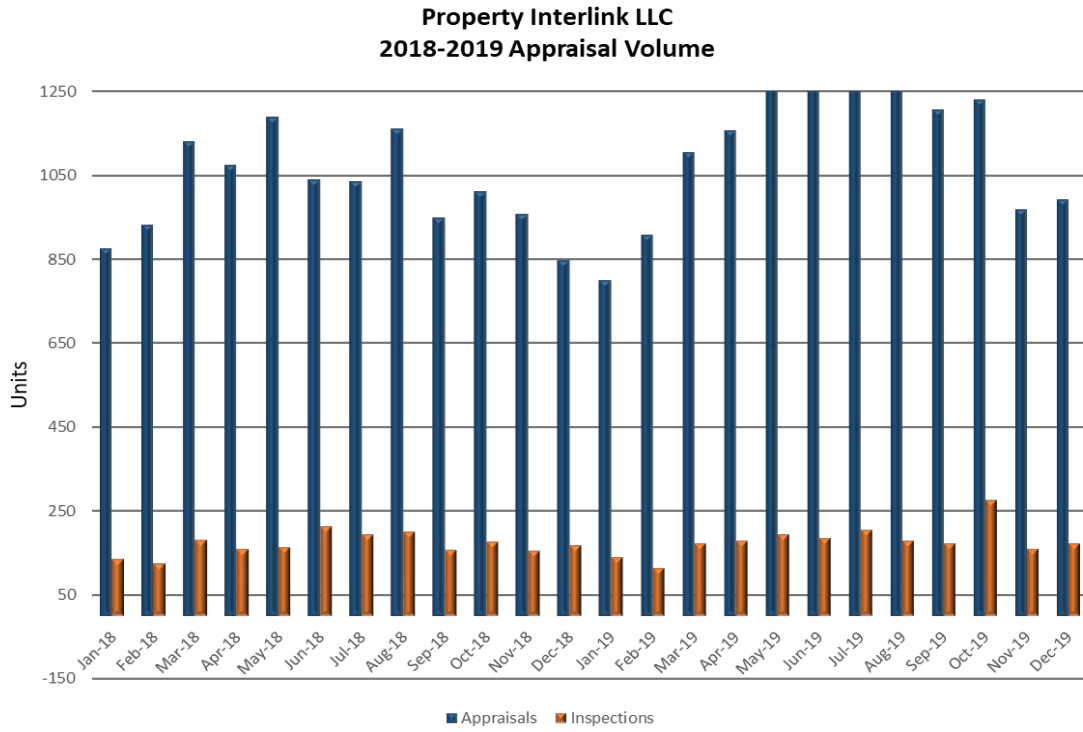
The growth in Property Interlink is directly associated with increased volume in the mortgage industry and specifically, with the Company's largest customers.

The following chart depicts changes in net appraisal revenue, as well as monthly appraisal volume, for Property Interlink for 2018-2019. Profit margins for appraisals has tightened over the past fourteen months. Management increased pricing during the fourth quarter of 2019, as indicated below on the "net revenue" line to maintain net income margins.

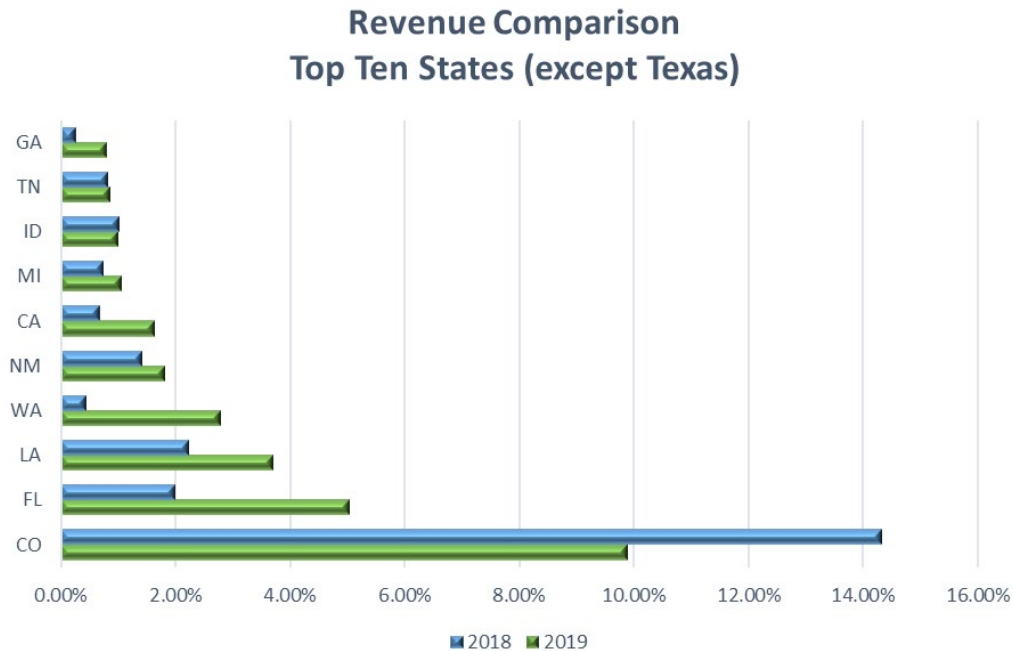




Property Interlink's monthly activity consists of both residential appraisals and inspections for residential construction and purchase properties, as well as final inspections required under specific mortgage guidelines in the United States. The following chart provides further subdivision of the Company's monthly appraisal and inspection activity for 2018 through 2019.



The chart below depicts revenue comparison by state (top ten other than Texas) for Property Interlink for the year ended December 31, 2019 and 2018.





## Reliable Valuation Service, LLC

Reliable Valuation Service, LLC, a Wyoming limited liability company, was incorporated June 13, 2018, as a staff appraisal company and reported no operating activity during 2018. Reliable Valuation Service was established to segregate the activities of staff appraisals and those of appraisal management. Operating activity began during the first quarter of 2019 with operations not fully segregated until the December 2019. For the year ended December 31, 2019, Reliable Valuation Service, LLC reported \$66,607 in revenue (2018 - \$Nil) for staff appraisal and inspection activity. During the twelve-month period ending December 31, 2019, Reliable Valuation Service, LLC completed 13 inspections and 93 appraisals. (2018 – Nil).

During the fourth quarter of 2019, the company completed 38 appraisals and 7 inspections with reported revenue of \$30,522 and expenses of \$15,471.

## Expenses

Overall expenses for the Company on a consolidated basis were \$13,115,840 an increase of \$2,528,301 over 2018 (\$10,577,539). Payroll expenses accounted for \$1,368,883 of this increase as a result of growth from 2019 in both Property Interlink, LLC and MFI Credit Solutions, LLC. Credit bureau and tax reporting fees associated with MFI Credit Solutions, LLC also increased by \$960,149, which was expected as the company experiences growth in activity.

Depreciation and amortization expenses for the year ended December 31, 2019, were \$412,985 compared to \$315,878 for the same period in 2018. During the period, Starrex also reported \$342,891 (2018 - \$138,345) in share-based payments for options issued to key employees during the year.

Interest expense of \$34,826 (2018 - \$28,138) was reported for the year ended December 31, 2019, which was associated with the Note Payable, as well as the Operating Line of Credit established during 2018.

On a consolidated basis, total non-cash expenses for 2019 were \$755,876 (2018 - \$410,380) and have been itemized below:

Expense	2019	2018
Depreciation and amortization	\$ 412,985	\$ 315,878
Share-based payments	342,891	138,345
Accretion expense	-	57,260
Impairment	-	-
Tax provision	-	(101,102)
Total	\$ 755,876	\$ 410,381

As a percent of appraisal revenue (\$8,328,373 – 2019; \$7,326,823 – 2018), appraisal expenses (commissions) were approximately 67.9% for the year ended December 31, 2019 (\$5,658,075) compared to 63.9% (\$4,683,866) for the previous year. 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 net revenue to the Company is significantly decreased by using independent contractors.

Expenses for credit bureaus related to the cost of credit reports were \$2,278,454 or 61.9% (2018 - \$1,318,305; 56.6%) as a percent of credit reporting revenue for the year ended December 31, 2019.

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## Liquidity and financial position

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

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### Liquidity

#### Cash

At December 31, 2019, Starrex held \$145,819 in cash and cash equivalents, a decrease of \$14,526 over the previous year-end (December 31, 2018 - \$160,345). This decrease was a result in utilization of operating capital in support of the subsidiaries.

At December 31, 2019, the Company had current assets of \$803,748 (\$673,386 – December 31, 2018) and current liabilities of \$2,317,228 (\$1,940,731 – December 31, 2018). The variance is due to an increase in accounts receivables and accounts payable and accrued liabilities.

## Cash flows

During the year ended December 31, 2019, the Company spent \$127,150 in operating activities. Utilization of cash from investing activities (purchase of equipment) represented \$7,217. Cash flow from financing was a result of conversion of the note payable, exercise of stock options and utilization of the operating line of credit during 2019. Total cash flows from financing activities was \$119,841.

## Liabilities

Current liabilities at December 31, 2019, were \$2,317,228, compared to \$1,940,731 at the prior year-end. The variance of \$376,497 is attributable to the conversion of the note payable and increased utilization of the operating line of credit established with Hilltop Financial. Accounts payable and accrued liabilities increased by \$507,684, to \$1,470,318 as at December 31, 2019 compared to \$962,634 for the year ended 2018. More than half of the increase in accrued liabilities is a result of share-based payments associated with options granted in December of 2019 but not issued until January of 2020. Liabilities from contracts with customers increased by \$49,977, from \$375,727 at December 31, 2018 to \$425,704 in 2019. Deferred revenue for the year ended December 31, 2019 was \$80,870 compared to \$49,955 at December 31, 2018 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.

## 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 \$567,076 at December 31, 2019 (\$462,316 – December 31, 2018). During ordinary course of business, balances in current accounts receivable remain steady with the necessary controls in place to ensure collectability.

Current accounts receivable as at December 31, 2019 were \$318,968 compared to \$270,130 at December 31, 2018. As Property Interlink continues to grow in volume and revenue, we expect to realize an increase in outstanding current accounts receivable balances. Additionally, approximately 45% of the customer base for MFI Credit Solutions, LLC is on a term account. Average days aged for accounts receivable in MFI is currently 17 days (December 1, 2018 – 18) with 34 days (December 31, 2018 – 49) to pay in Property Interlink.

## Fourth Quarter

During the fourth quarter, overall expenses to the Company of \$3,504,755 increased by \$784,303 over the same period in 2018 (\$2,720,452). This increase is attributable to commissions and operating costs associated with growth in all three subsidiaries.

Revenues for the fourth quarter of 2019 were \$2,860,809 compared to \$2,284,041 during the same period in 2018. MFI Credit Solutions, LLC reported \$828,820 in credit reporting activity revenue for the fourth quarter of 2019 (2018 - \$582,806). Appraisal revenue increased \$333,180, from \$2,031,989 during the fourth quarter in 2019 compared to \$1,698,809 in 2018.

**See “Segment Revenue, Expense and Key Performance Metrics” for additional detail by entity.**

## Segmented Information

The Company organizes its reporting structure into four 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 making decisions about resource allocation and performance assessment.

Selected financial information as at December 31, 2019 is presented by segment as follows (see Note 21):

	<b>Property Interlink, LLC</b>	<b>MFI Credit Solutions, LLC</b>	<b>Corporate</b>	<b>Reliable Valuation Service, LLC</b>	<b>Total</b>
Current assets	\$ 351,129	\$ 299,677	\$ 144,185	\$ 8,757	\$ 803,748
Property and equipment	46,151	35,493	-	-	81,644
Right-of-use assets	282,354	-	-	-	282,354
Intangible assets	113,180	964,901	137,966	-	1,216,047
Goodwill	621,132	294,156	-	-	915,288
<b>Total assets</b>	<b>\$ 1,413,946</b>	<b>\$ 1,594,227</b>	<b>\$ 282,151</b>	<b>\$ 8,757</b>	<b>\$ 3,299,081</b>
Current liabilities	\$ 831,782	\$ 709,432	\$ 776,014	\$ -	\$ 2,317,228
Long-term liabilities	138,977	-	-	-	138,977
<b>Total liabilities</b>	<b>\$ 970,759</b>	<b>\$ 709,432</b>	<b>\$ 776,014</b>	<b>\$ -</b>	<b>\$ 2,456,205</b>
<b>Revenues</b>	<b>\$ 8,328,373</b>	<b>\$ 3,681,309</b>	<b>\$ -</b>	<b>66,607</b>	<b>\$ 12,076,289</b>
<b>Expenses</b>	<b>\$ 8,732,590</b>	<b>\$ 3,787,760</b>	<b>\$ 559,093</b>	<b>\$ 36,397</b>	<b>\$ 13,115,840</b>
Operating (loss) income from continuing operations before provision for income tax	\$ (404,217)	\$ (106,451)	\$ (559,093)	\$ 30,210	\$ (1,039,551)
<b>Net (loss) income and comprehensive loss for the year</b>	<b>\$ (404,217)</b>	<b>\$ (106,451)</b>	<b>\$ (559,093)</b>	<b>\$ 30,210</b>	<b>\$ (1,039,551)</b>

Selected financial information as at December 31, 2018 is presented by segment as follows (see Note 21):

	<b>Property Interlink, LLC</b>	<b>MFI Credit Solutions, LLC</b>	<b>Corporate</b>	<b>Reliable Valuation Service, LLC</b>	<b>Total</b>
Current assets	\$ 407,417	\$ 249,119	\$ 16,230	\$ 620	\$ 63,386
Property and equipment	104,800	39,992	-	-	144,722
Intangible assets	173,567	1,067,047	183,344	-	1,423,958
Goodwill	621,132	294,156	-	-	915,288
<b>Total assets</b>	<b>\$ 1,306,916</b>	<b>\$ 1,650,244</b>	<b>\$ 199,574</b>	<b>\$ 620</b>	<b>\$ 3,157,354</b>
Current liabilities	\$ 606,213	\$ 489,301	\$ 845,216	\$ -	\$ 1,940,731
Long-term liabilities	-	-	-	-	-
<b>Total liabilities</b>	<b>\$ 606,213</b>	<b>\$ 489,301</b>	<b>\$ 845,216</b>	<b>\$ -</b>	<b>\$ 1,940,731</b>
Revenues	\$ 7,326,823	\$ 2,328,380	\$ 9,644	\$ -	\$ 9,664,847
Expenses	\$ 7,729,400	\$ 2,490,180	\$ 357,579	\$ 380	\$ 10,577,539
Operating income (loss) from continuing operations before provision for income tax	\$ (402,577)	\$ (161,800)	\$ (347,935)	\$ (380)	\$ (912,691)
Income tax expense	\$ 101,102	\$ -	\$ -	\$ -	\$ 101,102
Net loss and comprehensive loss for the year	\$ (301,475)	\$ (161,800)	\$ (347,935)	\$ (380)	\$ (811,590)

## 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 (see Note 8) 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, to provide return for shareholders and benefits for other stakeholders and to ensure sufficient resources are available to meet day-to-day operating expenses.

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

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

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

## Income Taxes

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

United States	2019		2018	
Balance, beginning of year	\$	-	\$	(101,102)
Recognized in net comprehensive loss		-		101,102
Balance, end of year	\$	-		-

Canada	2019		2018	
Deferred income tax				
Canadian net capital loss carried forward	\$	2,360,000	\$	2,542,000
Canadian non-capital losses carried forward	\$	3,876,000	\$	3,744,000

## Related Party Transactions

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 by the Company:

### AmCap Mortgage Ltd.

AmCap Mortgage Ltd., a related customer (by common Director) accounted for \$5,604,303 (2018 - \$4,324,600) of revenue to the Company. As at December 31, 2019, \$85,084 (2018 - \$36,734) is included in accounts receivable on the consolidated statements of financial position.

### Hilltop Financial, LLC

On November 16, 2018, the Company entered into a Promissory Note with Hilltop Financial, LLC, a related party (by common Director). The Company recorded \$8,497 in accrued interest for the year ended December 31, 2019 (2018 - \$Nil). As at December 31, 2019, the Company utilized \$247,751 (2018 - \$80,000) of the revolving line of credit, which is reported as a short-term liability.

### Key Management Compensation

- i) The Company incurred \$619,878 in management fees and associated payroll for the year ended December 31, 2019 (2018 - \$330,560) to key members of management. These fees are included in payroll, management and corporate services. At December 31, 2019 and 2018, all amounts had been paid.
- ii) The Company incurred \$263,614 in share-based payments for the year ended December 31, 2019, for options granted to the Chief Executive Officer, Chief Financial Officer and directors on December 19, 2019. This amount is included in accrued liabilities as at December 31, 2019, as the options were not issued until January 8, 2020.
- iii) During the year ended December 31, 2019, 175,000 options were exercised by the Chief Operating Officer and 325,000 options were exercised by two directors.

## Commitment

Effective November 1, 2019, the Company entered into a consulting agreement for appraisal compliance oversight with a maturity date of October 31, 2020. As at December 31, 2019, this agreement has minimum commitments of \$32,500.

Effective May 20, 2019, the Company entered into an employment agreement. As at December 31, 2019, the Company has minimum commitments of \$52,500 with respect to this agreement.



## Subsequent Events

Novel Coronavirus (“COVID-19”) – The Company’s operations could be significantly adversely affected by the effects of a widespread global outbreak of a contagious disease, including the recent outbreak of respiratory illness caused by COVID-19. The Company cannot accurately predict the impact COVID-19 will have on its operations and the ability of others to meet their obligations with the Company, including uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected countries. In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company’s operations and ability to finance its operations.

Effective January 8, 2020, the Company granted to directors and employees 550,000 options to purchase common shares of the Corporation with an exercise price of \$0.65 CDN. The options expire January 8, 2025 and vest immediately. As the grant related to services provided during 2019, \$263,614 was accrued at December 31, 2019 and recorded as share-based payments.

On April 17, 2020, the Company’s United States subsidiaries entered into loan agreement with a principal amount of \$790,600. The promissory note incurs interest rate of 1.00% per annum, with a maturity date of April 17, 2022. The loan is required to be repaid in 17 equal installments starting on November 17, 2020.

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## Critical accounting estimates

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

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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 these consolidated financial statements are as follows:

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

- v) 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.
- vi) 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.

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## Disclosure Controls and Procedures.

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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 year ended December 31, 2019, concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company would have become known to them.

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

The relatively small size of the Company makes the described identification and authorization process reasonably efficient and is an effective process for reviewing internal controls over financial reporting. To the extent possible, given the Company's modest business operations, and utilizing professional outsourcing for part or most of the process, the internal control procedures provide for the clear separation of duties for receiving, approving, coding and handling of invoices, entering transactions into the accounts, writing checks and completing and recording wire requests. As of December 31, 2019, the Company's Disclosure Committee concluded that the Company's system of internal controls is adequate and reasonably comparable to those of issuers of a similar size and business nature.

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## Risks and risk management

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

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

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

## 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 December 31, 2019, the Company had cash of \$145,819 (2018 - \$160,345) available to settle current liabilities of \$2,317,228 (2018 - \$1,940,731).

## Interest Rate Risk

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

## Foreign Currency Risk

The Company is exposed to foreign currency risk on fluctuations related to cash, accounts receivable, and accounts payable and accrued liabilities that are denominated in a foreign currency. As at December 31, 2019, 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.

	December 31, 2019	December 31, 2018
Cash	\$ -	\$ -
Accounts receivable	113,851	365
Accounts payable and accrued liabilities	(37,614)	(214,552)
<b>Total</b>	<b>\$ 76,237</b>	<b>\$ (214,187)</b>

## Concentration Risk

The Company has certain customers whose revenue individually represented 10% or more of the Company's total revenue. Concentration risk for Amcap Mortgage, Ltd. by segment is as follows:

Segment	2019		2018	
	Revenue (\$)	Revenue (%)	Revenue (\$)	Revenue (%)
Property Interlink-Appraisal revenue	\$ 4,306,798	51%	4,122,180	43%
MFI Credit Solutions Credit reporting revenue	1,297,505	35%	202,480	2%
Total	\$ 5,604,303	46%	\$ 4,324,600	45%

All of the Company's revenue for the year ended December 31, 2019 and 2018, was in the United States.

As at December 31, 2019, two customers, Amcap Mortgage Ltd. and Finance of American Mortgage, accounted for 42% (\$167,789) of the Company's appraisal accounts receivable balances. As at December 31, 2018, one customer accounted for 25% (\$115,835) of appraisal accounts receivable.

There can be no assurance that all or any of the Company's customers will continue to be customers of the Company. The loss of any such customers may have a materially negative impact on the company's business conditions and financial results.

## Federal and State Regulation

As at year-end 2019, 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.

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.

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## Internal Control over financial reporting

A summary of our internal control review results

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During the year, the Company's internal control processes are reviewed and updated as necessary. During the year ended December 31, 2019, no significant deficiencies in internal control were identified.

## Share Capital

As at December 31, 2019, 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, 2017 and 2018</b>	<b>14,580,827</b>	6,779,711
Shares Issued - exercise of options	500,000	182,798
Shares issued – conversation of note payable	471,698	557,260
<b>Balance, December 31, 2019</b>	<b>15,552,525</b>	7,519,769

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, December 31, 2017	650,000	0.47	0.35
Options issued	175,000	1.03	0.73
Outstanding, December 31, 2018	825,000	0.44	1.08
Exercise of options	500,000	0.18	1.33
Options expired	(50,000)	0.44	0.81
Options cancelled	(50,000)	0.38	0.41
Options issued	75,000	0.57	0.51
Outstanding and exercisable, December 31, 2019	300,000	1.14	0.72

	Number of Options Outstanding	Number of Options Exercisable	Exercise Price	Expiry Date	Weighted Average Remaining Life
Granted August 25, 2015	100,000 <sup>(1)</sup>	100,000	\$ 1.31 <sup>(3)</sup>	September 1, 2020	0.67
Granted October 5, 2018	125,000 <sup>(2)</sup>	125,000	\$ 1.34 <sup>(4)</sup>	October 5, 2023	3.76
Granted May 8, 2019	50,000 <sup>(5)</sup>	50,000	\$ 0.58 <sup>(6)</sup>	May 8, 2024	4.36
Granted November 25, 2019	25,000 <sup>(2)</sup>	25,000	\$ 0.55 <sup>(7)</sup>	November 23, 2024	4.91
Total	300,000	300,000			2.93

(1) An Executive Officer 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 CAD \$1.70.

(4) The exercise price is CAD \$1.75.

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

(6) The exercise price is \$0.75 CAD.

(7) The exercise price is \$0.71 CAD.

The Company incurred \$342,891 in share-based payment expense for options in 2019 (\$138,345 – 2018). During April 2019, directors of the Company exercised 500,000 options, each with an exercise price of CAD \$0.25, to acquire 500,000 common shares of the Company. An additional 50,000 options were cancelled subsequent to the termination of an employee relationship. On November 12, 2019, 50,000 options were cancelled after the termination of an employee relationship.