

# **Darelle Online Solutions Inc.**

**Management's Discussion & Analysis**

**Year Ended August 31, 2019**

**Dated December 6, 2019**

**December 6, 2019**

The following management discussion and analysis (“MD&A”) for Darelle Online Solutions Inc. (the “Company” and/or “darelle”) should be read in conjunction with the Company’s audited consolidated financial statements and related notes therein (“Financial Statements”) for the twelve months ended August 31, 2019, and 2018 that are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (“IASB”). All financial information is stated in Canadian dollars, unless otherwise stated.

The objective of this MD&A is to help the reader understand the factors affecting the Company’s past and future performance. All amounts are reported in Canadian dollars, unless otherwise stated. The Financial Statements and additional information regarding the Company can be found in filings with Canadian security commissions on the System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com)

## **FORWARD LOOKING STATEMENTS**

This MD&A contains forward-looking statements. Forward looking statements generally can be identified by the use of forward-looking terminology such as “may”, “will”, “expect”, “intend”, “anticipate”, “plan”, “foresee”, “believe” or “continue” or the negatives of these terms or variations of them or similar terminology. These forward-looking statements include references to the future success of our business, technology, and market opportunities. By their nature, forward looking statements require the Company to make assumptions and are subject to important known and unknown risks and uncertainties, which may cause the Company’s actual results in future periods to differ materially from forecasted results. While the Company considers its assumptions to be reasonable and appropriate based on current information available, there is a risk that they may not be accurate. These forward-looking statements are neither promises nor guarantees but involve known and unknown risks and uncertainties that may cause our actual results, level of activity, performance, or achievements to be materially different from any future results, levels of activity, performance or achievements expressed in or implied by these forward-looking statements. These risks include risks related to general economic conditions, risks associated with revenue growth, operating results, industry factors and the Company’s general business environment, risks associated with doing business with joint venture partners, risks involved with the development of new products and technology, financing risks, such as risks relating to liquidity and access to capital markets, and risks relating to competition, among other factors. For a more detailed description of the risks that affect the Company’s future growth, results and performance, readers are referred to the section on ‘Risks and Uncertainties’ in this MD&A and the Company’s Information Circular dated December 2, 2019. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive and undue reliance should not be placed on such forward-looking statements which speak only to the date they were made. We disclaim any obligation to publicly update or revise any such statements to reflect any change in our expectations or in events, conditions, or circumstances on which any such statements may be based, or that may affect the likelihood that actual results will differ from those set forth in the forward-looking statements.

## **Business Overview**

*darelle* is a company listed on the TSX Venture Exchange is located at Suite 527, 2818 Main Street, Vancouver, B.C. V5T 0C1 with a registered office at 4907 Fillinger Crescent, Nanaimo, British Columbia, V9V 1H9.

The Company has a wholly owned subsidiary (Darelle Media Inc.) which was acquired by the Company on February 6, 2015.

## Company Activity

On June 26, 2019, the Company announced it had entered into an arm's length binding letter of intent with North Star Holdings ("North Star") in which the securityholders of North Star would acquire control of the Company ("Proposed Transaction").

The reverse-takeover of the Company would result in North Star shareholders receiving 167,410,516 post-consolidation shares representing 98.8% of the outstanding shares of the Company once a consolidation is completed. The existing Company shareholders will continue to hold shares representing a 1.2% interest on a post-consolidation basis.

The transaction also involves the spin-out of the Company's wholly owned subsidiary, Darelle Media Inc. ("darelle"). The darelle business currently constitutes all or all substantially all of the business of the Company. Current shareholders of the Company will receive an interest in the spin-out entity equal to their existing equity interest based upon a record date to be determined.

On or before closing of the Proposed Transaction, North Star has agreed to make a cash payment of \$250,000 to darelle in consideration of the issuance of such number of common shares as will constitute 17.5% of the issued and outstanding shares of darelle (on a fully diluted basis) on closing.

Immediately prior to closing of the Proposed Transaction, the Company shall have no outstanding indebtedness, liabilities or obligations except for \$150,000 which shall be settled on closing date of the Proposed Transaction through the issuance of shares of the resulting issuer at a price per share equal to the Concurrent Offering Price.

On January 15, 2019, the Company announced the commencement of a review of strategic alternatives to enhance shareholder value including, among other things, an equity financing, the sale of part or all of the Company, a merger with another party or other strategic transaction or continuing to execute on the Company's business plan.

On July 11, 2018, the Company's wholly owned subsidiary (Darelle Media Inc.) received confirmation that the darelle platform has received certification from Gaming Laboratories International ("GLI") under the technical standards for testing pursuant to *GLI-31 Electronic Raffle Systems* (GLI-31 Certification). The GLI-31 Certification meets the technical standards for The Alberta Gaming and Liquor Act and Regulation, Liquor and Gaming Authority of Manitoba ("LGA"), Saskatchewan Liquor and Gaming Authority, and the Alcohol and Gaming Commission of Ontario. This is a critical milestone for the Company as it provides opportunity to secure licensing in multiple provinces and expand the geographical base of the platform in Canada. The GLI-31 Certification also provides opportunity to seek licensing in several state jurisdictions in the United States.

The Company launched the darelle Online Raffle Platform in the province of British Columbia in March 2016. During the 2019 fiscal year the platform processed over 116,000 tickets representing raffle ticket sales of over \$1.2 million dollars. This compares with approximately 94,000 tickets in 2018 and raffle ticket sales of \$1.2 million dollars during the same twelve-month period.

On January 15, 2018, the Company issued 4,300,000 units ("Units") of the Company at a price of \$0.05 per Unit, for gross proceeds of \$215,000 (the "Offering"). Each Unit was comprised of one common share in the capital of the Company ("a "Share") and one Share Purchase Warrant of the Company ("a "Warrant"). Each Warrant entitles the holder to purchase an additional Share of the Company (a "Warrant Share") for a period of 24 months from the closing date at an exercise price of \$0.075 per Warrant Share. Proceeds of the Offering will be used as follows:

- To fund ongoing operations of the Company's wholly owned subsidiary, approximately \$120,000;
- For professional fees and arm's length trade payables owing, approximately \$55,000; and

- To maintain the Company's present operations and cover general and administrative expenses, approximately \$40,000.

On January 3, 2018, the Company announced that its wholly owned subsidiary had been licensed by the Liquor and Gaming Authority of Manitoba as a gaming service provider in the province of Manitoba. The Company has license applications under review in Nova Scotia, Ontario, and Saskatchewan. The Company anticipates it will be licensed in multiple jurisdictions pending the completion of independent testing of the Company's online raffle program.

## Intangible Assets

<b>Development costs</b>	
Balance as at August 31, 2017	478,672
Additions	114,829
Amortization	(104,171)
<b>Balance as at August 31, 2018</b>	<b>489,330</b>
Additions	-
Amortization	(127,260)
Impairment	(167,113)
<b>Balance as at August 31, 2019</b>	<b>194,957</b>
<b>Carrying amount of Intangible Assets</b>	
At August 31, 2019	194,957

Intangible assets include software acquired in conjunction with the acquisition of Darelle Media Inc. and internally generated development costs. In conjunction with the acquisition of Darelle Media Inc. the Company acquired intangible assets of \$300,582. As at July 2018, the remaining useful life of the intangible assets, including those acquired with the acquisition is 46 months.

The Company assesses the carrying amount of non-financial assets including intangible assets at each reporting date to determine whether there is an indication of impairment. An impairment loss is the amount equal to the excess of the carrying amount over the recoverable amount.

The calculation of the recoverable amount used in impairment testing requires estimates of the number of raffle programs the Company will complete and an assessment of the resultant revenue the Company will realize. Such estimates are reviewed in detail as part of the budget and strategic planning process. The recoverable amount of the darelle.com platform (intangible asset) is based on the higher of fair value less costs to sell and value in use, generally determined using a discounted cash flow model. Other key estimates used to determine the recoverable amount include the discount rate and the expected cash flows as determined in the budget and strategic plan.

If, after the Company has previously recognized an impairment loss, circumstances indicate that the fair value of the impaired asset is greater than the carrying amount, the Company reverses the impairment loss by an amount the revised fair value exceeds its carrying amount, to a maximum of the previous impairment loss. In no case shall the revised carrying amount exceed the original carrying amount, after amortization, that would have been determined if no impairment loss had been recognized. An impairment loss or a reversal of an impairment loss is recognized in other income and/or expense. Impairment of goodwill is not reversed.

During the year ended August 31, 2019, the Company impaired intangible assets by \$167,113 (2018 - \$Nil).

## Financial Overview

Management considers the Company to be in the development stage. Annual revenues and expenditures are not reflective of future activity.

The financial highlights for the year ended August 31, 2019 are noted below:

- Cash provided by operations was \$50,052 for the year compared to cash used by operations of \$123,645 for the same period in fiscal 2018.
- Net loss and comprehensive loss were \$529,066 ((\$0.01) per share) for the year, increased from \$450,477, compared to the same period in fiscal 2018.

## Selected Annual Information

	2019	2018	2017
	\$	\$	\$
Revenue	130,631	124,468	70,817
Loss before income taxes	(529,066)	(450,477)	(577,371)
Net loss	(529,066)	(450,477)	(577,371)
EPS - Basic	(0.01)	(0.01)	(0.01)
EPS - Diluted	(0.01)	(0.01)	(0.01)
Total assets	278,274	519,353	544,104
Long-term liabilities	-	-	-
Dividends	Nil	Nil	Nil

## Results of Operations

The following table sets forth a comparison of revenues, earnings, major expense category for the quarter and year ended August 31, 2019 and 2018:

	Three Months Ended		Year Ended	
	August 31, 2019	August 31, 2018	August 31, 2019	August 31, 2018
Sales	\$ 28,927	\$ 21,046	\$ 130,631	\$ 124,468
Expenses				
Consulting fees	28,225	-	105,856	-
Amortization	31,815	29,471	127,260	104,171
General and administrative	22,614	5,396	40,842	48,036
Management fees	60,000	60,000	240,000	240,000
Marketing	121	2,216	942	3,688
Professional fees	5,825	12,329	26,625	24,554
Stock based compensation	-	26,780	-	133,012
Transfer agent & filing fees	5,355	2,905	16,144	18,297
Travel	208	90	916	3,187
Total expenses	154,163	139,188	558,585	574,945
	125,236	118,142	427,954	450,477
Other income	66,000	-	66,000	-
Impairment of intangible assets	(167,113)		(167,113)	
Net and comprehensive loss	226,349	118,142	529,066	450,477
Basic and diluted income				
(loss) per share	\$ (0.00)	\$ (0.00)	(0.01)	\$ (0.01)

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Weighted average number of shares outstanding	73,708,147	73,708,147	73,708,147	72,094,174
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## Revenue

Revenue was \$28,927 for the fourth quarter of 2019 compared to revenue of \$21,046 during the same quarter of 2018. Revenue is typically comprised of a set-up fee and a flat administration fee per raffle ticket sold by organizations. The set-up fee is non-refundable and is recognized once an organization enters into a service agreement with the Company. The Company realizes a flat administration fee per each raffle ticket sold (“processing fees”) once the organization begins to sell raffle tickets. Revenue realized during the fourth quarter of 2019 including processing fees and set up fees in conjunction with the darelle Online Raffle Program.

Revenue was \$130,631 for the year ended August 31, 2019 compared to \$124,468 for the 2018 fiscal year. The Company realized set-up fees of \$32,125 (2018 -\$34,875) and processing fees of 98,506 (2018 - \$89,593) during the 2019 fiscal year.

## Consulting Fees

Consulting fees were \$28,225 for the fourth quarter of 2019 compared to \$Nil for the same quarter of the 2018 fiscal year. Consulting fees include wages and fees paid to software programmers and sales consultants. Software consulting fees incurred during the 2018 fiscal year were attributed to the development of the [www.darelle.com](http://www.darelle.com) platform. The Company has a policy of capitalizing development expenditures based upon a number of factors including commercial feasibility, future economic benefits and the ability to use or sell the assets. Development work on the platform was completed in July 2018 with the achievement of the GLI-31 Certification received by Gaming Laboratories LLC which resulted in the expense of software consulting fees incurred subsequent to the certification. Software consulting fees were expensed during the 2019 fiscal year. In addition, the Company incurred consulting fees of \$12,500 in conjunction with the engagement of an advisor on the preparation of a fairness opinion for the North Star transaction.

Consulting fees were \$105,856 for the year ended August 31, 2019 compared to \$Nil for 2019. Software consulting fees incurred during the 2018 fiscal year were capitalized as development of the platform was in process.

## Amortization

Amortization expense was \$31,815 for the fourth quarter of 2019 compared to amortization expense of \$29,471 during the same three-month period of the 2018 fiscal year. The Company capitalized development expenditures based upon several factors including commercial feasibility, future economic benefits, and the ability to use or sell the assets. Intangible assets are amortized on a straight-line basis over 5 years.

Amortization expense was \$127,260 for the fiscal year ended August 31, 2019 compared to \$104,171 during the same twelve-month period in 2018.

## General and Administrative

General and administrative (“G&A”) expenses were \$22,614 for the fourth quarter of 2019 compared to \$5,396 for the same three-month period in 2018. G&A expenses are mainly costs associated with the company’s computer servers, office supplies, travel, entertainment, investor relation programs and administrative costs.

G&A expenses were \$40,842 for the 2019 fiscal year, decreased by, \$7,194 from \$48,036 for the same period in 2018. During the 2018 fiscal year the Company incurred software certification fees of \$13,920 in conjunction with the certification of the Company’s electronic raffle system which was completed in July 2018.

### **Management Fees**

Management Fees were \$60,000 for the fourth quarter of 2019 compared to \$60,000 during the same three-month period in 2018. Management fees include management consulting fees associated with the appointment of an officer of the Company and a President of the wholly owned subsidiary (Darelle Media Inc.). Under the terms of the consulting agreements each officer will receive a monthly consulting fee of \$10,000 per month ("Management Consulting Fees").

Management fees were \$240,000 during the fiscal year ended August 31, 2019 compared to \$240,000 for the same twelve-month period in the 2018 fiscal year.

### **Marketing**

Marketing expenses were \$121 for the fourth quarter of 2019 compared to \$2,216 during the same three-month period in 2018. Marketing costs include organization conferences, marketing collateral and costs associated with attending raffle draws by the Company.

Marketing expenses were \$942 for the fiscal year ended August 31, 2019 compared to \$3,688 during the 2018 fiscal year. Marketing costs are comprised of marketing events, promotion, and supplies. Activity was limited during the 2019 fiscal year due to constraints on financial resources.

### **Professional Fees**

Professional fees were \$5,825 during the fourth quarter of 2019 compared to \$12,329 for the fourth quarter of 2018. Professional fees in the fourth quarter of 2018 included an accrual for the annual audit, accounting fees paid to a consultant, and legal costs associated with filing annual returns for the Company.

Professional fees were \$26,625 for the year ended August 31, 2019 compared to \$24,554 for same twelve-month period of fiscal 2018. Professional fees increased on a year-over-year basis as a result of higher legal costs associated with the proposed transaction with North Star Holdings (see "Subsequent Event").

### **Stock Based Compensation**

Stock based compensation for the fourth quarter of 2019 was \$Nil compared with stock based compensation of \$26,780 for the same three-month period in the 2018 fiscal year. Stock based compensation was calculated using the Black-Scholes Option Pricing model. The Company did not issue any stock options during the 2019 fiscal year.

Stock based compensation for the year ended August 31, 2019 was \$Nil compared with stock based compensation of \$133,012 during the same twelve-month period of the 2018 fiscal year. During the 2018 fiscal year, the Company granted 3,575,000 stock options with fair value of \$133,012 using the Black-Scholes Option Pricing model. \$133,012 was recorded as other equity reserves on the balance sheet and as stock based compensation on the statements of comprehensive loss related to vested stock options.

### **Transfer Agent & Filing Fees**

Transfer agent and filing fees were \$5,355 during the fourth quarter of 2019 compared to \$2,905 during the same three-month period of the 2018 fiscal year. The Company incurred additional filing fees of \$3,500 in conjunction with the proposed transaction with North Star.

Transfer agent and filing fees were \$16,144 during the fiscal year ended August 31, 2018 compared to \$18,297 for the same twelve-month period in 2018. Transfer agent and filing fees are consistent on a year-over-year basis. Transfer agent and filing fees include fees paid to the Company's transfer agent (Computershare) as well as regulatory fees paid to the TSX Venture Exchange and filing fees associated with interim filings on Sedar.

## **Travel**

Travel expenses were \$208 for the fourth quarter of 2019 compared to \$90 for the same three-month period in 2018. Travel expenses were consistent on a period-over-period basis.

Travel expenses were \$916 for the year ended August 31, 2019 compared to \$3,187 for the same twelve-month period in 2018. Travel expenses include travel and accommodation, meals, and entertainment.

## **Other Income**

The Company realized other comprehensive income of \$66,000 during the fourth quarter ended August 31, 2019 compared to \$Nil during the same three-month of the 2018 fiscal year. The Company realize other income of \$50,000 in conjunction with the payment of two non-refundable deposits of \$25,000 received in conjunction with the North Star transaction. In addition, the Company realized other income of \$16,000 as a result of the reimbursement of transaction costs (consulting fees of \$12,500 in conjunction with a fairness opinion) and initial listing fees of \$3,500 paid to the Canadian Securities Exchange.

The Company realized other income of \$66,000 during the year ended August 31, 2019 compared to \$Nil for the same twelve-month period in 2018. Other income include the non-refundable deposit of \$50,000 and the reimbursement of transaction costs (\$16,000) in conjunction with the North Star transaction.

## **Impairment of Intangible Assets**

The Company realized an impairment on the value of intangible assets on the [www.darelle.com](http://www.darelle.com) platform ("platform") of \$167,113 during the fourth quarter of 2018 compared to \$Nil for the same quarter of the 2018 fiscal year. Based upon the recoverable amount determined for the cash generating platform, the Company concluded that an impairment of \$167,113 was required for the year ended August 31, 2019 (2018 - \$Nil).

## **Net Loss**

Net loss for the fourth quarter ended August 31, 2019 was \$226,348 ((\$0.00) per share) compared to a net loss of \$118,142 for the same period in fiscal 2018. The increase in net loss for the fourth quarter of 2018 was due primarily to an impairment loss of \$167,113 realized during the fourth quarter which was partially offset by higher revenue realized during the 2019 fiscal period and other income of \$66,000 in conjunction with the North Star transaction (see discussion "Other Income").

Net loss for the year ended August 31, 2019 was \$529,066 ((\$0.01) per share) compared to a net loss of \$450,477 ((\$0.01) per share) for the same twelve-month period ended August 31, 2018. The increase in net loss for the 2019 fiscal year was due primarily an impairment loss of \$167,113 realized during the 2019 fiscal year and higher consulting fees (\$105,856 increase) as the Company no longer capitalizes software consulting fees as a result of completion of development of the darelle.com online raffle platform. This was partially offset by stock based compensation charged during the 2018 fiscal year (\$133,012) compared to \$Nil in the current fiscal year.

Loss per share for the periods ended August 31, 2019 and 2018 was calculated based on the weighted average number of common shares outstanding through the quarter.

## Summary of Quarterly Results

The following financial summary of quarterly operations has been presented on the basis of the unconsolidated financial statements of the Company.

### Summary of Quarterly Operations

	Three Month Period Ended Aug 31, 2019	Three Month Period Ended May 31, 2019	Three Month Period Ended Feb. 28, 2019	Three Month Period Ended Nov. 30, 2018
	\$	\$	\$	\$
Revenue	28,927	56,050	24,452	21,202
Capital Expenses	-	-	-	-
Net Loss	(125,236)	(85,029)	(112,851)	(104,838)
Net Loss Per Share	(0.00)	(0.00)	(0.00)	(0.00)
	Three Month Period Ended Aug 31, 2018	Three Month Period Ended May 31, 2018	Three Month Period Ended Feb. 28, 2018	Three Month Period Ended Nov. 30, 2017
	\$	\$	\$	\$
Revenue	21,046	55,780	19,922	27,740
Capital Expenses	-	-	-	-
Net Loss	(118,141)	(101,962)	(159,849)	(70,507)
Net Loss Per Share	(0.00)	(0.00)	(0.00)	(0.00)

Net Loss has fluctuated from quarter to quarter and this trend is expected to continue in the near term with its magnitude governed by the amount of available cash, approved business development and capital budgets, and future gross margins generated from sales.

## Liquidity and Capital Resources

	August 31, 2019	August 31, 2018
Non-current assets	\$ 194,957	\$ 489,330
Current assets	83,317	30,023
Current liabilities	(605,982)	(317,995)
Total assets less current liabilities	(327,708)	201,358
Non-current liabilities	-	-
Shareholders' equity	(327,708)	201,358
	<b>\$ (327,708)</b>	<b>\$ 201,358</b>

## Non-current assets

Non-current assets decreased by \$294,373 due to an impairment (\$167,113) recognized and amortization of development costs associated with the [darelle.com](http://darelle.com) online raffle platform.

## Current assets

Current assets increased by \$53,294 at August 31, 2019 as compared to August 31, 2018, which is attributed to:

### Cash

Cash increased by \$50,052 primarily due to lower cash requirements for operating activities net of amortization (\$127,260) and an impairment (\$167,113) which are a non-cash use of working capital.

	August 31, 2019	August 31, 2018
Trade receivables	\$ 21,261	\$ 15,719
Allowance for doubtful debts	-	-
Net trade receivables	21,261	15,719
Other receivables	572	2,872
	<b>\$ 21,833</b>	<b>\$ 18,591</b>

## Current liabilities

Current liabilities of \$605,985 increased by \$287,987 which is attributed to:

### Accounts payable and accrued liabilities

Accounts payable and accrued liabilities increased by \$58,739. The increase is predominantly due the accrual of software consulting fees (\$15,750), North Star transaction costs (\$12,500) and an accrual for unpaid professional fees.

### Due to related party

Due to related party increased by \$235,000. The increase is predominantly due to the accrual of unpaid management fees to related parties as of August 31, 2019.

## Non-current liabilities

The Company had no non-currently liabilities outstanding as at August 31, 2019 and 2018.

## Shareholders' equity

Shareholders' equity at August 31, 2019 decreased by \$529,066 as compared to the balance at August 31, 2018 due to the recognition of a net loss of \$529,066 for the year ended August 31, 2019.

## Critical Accounting Policies and Estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported on the consolidated financial statements. These critical accounting estimates represent management estimates that are uncertain and any changes in these estimates could materially impact the Company's consolidated financial statements. Management continuously reviews its estimates and assumptions using the most current information available. The Company's critical accounting policies and estimates are described in Note 2 of the accompanied audited consolidated financial statements for the year ended August 31, 2019.

Management has identified share-based payments as critical estimates for the following discussion:

### *Share-based payments*

The Company accounts for stock options granted to employees, officers, directors, and consultants using the fair value method. The fair value of options granted to employees, officers, directors, and consultants is determined using the Black-Scholes option pricing model with market related inputs as of the date of the grant. Market related inputs using the Black-Scholes option pricing model are subject to estimation and includes risk free interest rate, expected life of option, expected volatility, and expected dividend yield.

## Future Changes in Accounting Standards

The following are the new IFRS pronouncements that have been issued, that are not yet effective, that have not been early adopted, and that may have an impact on the Company, in the future, as discussed below.

*IFRS 16 – Leases* replaces *IAS 17 – Leases*, *IFRIC 4 – Determining whether an arrangement contains a lease*, *SIC 15 – Operating Leases* and *SIC 27 – Evaluating the substance of transactions involving the legal form of a lease*. IFRS 16 eliminates the classification of leases as either operating or finance leases and requires the recognition of assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. Lessor accounting is substantially unchanged from IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company currently has no lease obligations and has not yet evaluated the impact IFRS 16 on the consolidated financial statements.

## Financial Instruments and Related Risk

The fair value of cash, accounts receivable, and accounts payable and accrued liabilities approximate their carrying amount due to their short-term nature.

The Company has exposure to credit, liquidity, foreign exchange and interest rate risk as follows:

### **Credit risk**

Credit risk is the risk of that a counterparty to a financial asset will default, resulting in the Company incurring a financial loss. The Company is exposed to credit risk on its cash and accounts receivable to a maximum of the varying value of the items at the reporting date.

The Company mitigates its exposure to credit risk by maintaining its bank accounts with major Canadian financial institutions with strong investment-grade ratings by a primary ratings agency.

The Company's trade receivables are monitored on an ongoing basis for impairment.

At August 31, 2019, \$2,599 (August 31, 2018 - \$7,781) of trade accounts receivable balance \$21,261

(August 31, 2018 - \$15,719) was past due. Other receivables at August 31, 2019 consist primarily of GST \$472 (August 31, 2018 - \$2,872).

### Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting its financial obligations.

The Company's monitors its ability to meet its short-term operating expenditures by raising additional funds through share issuances when required. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market or other alternative forms of financing is hindered, whether as a result of a downturn in stock market conditions generated or related to matters specific to the Company.

The Company's contractual liabilities and obligations are as follows:

	<b>&lt;1 year</b>	<b>1 to 3 years</b>	<b>4 to 5 years</b>	<b>&gt;5 years</b>	<b>Total</b>
Accounts payable and accrued liabilities	\$ 100,130	-	5,000	-	\$ 105,130
Due to related party	500,852	-	-	-	500,852
<b>Balance August 31, 2019</b>	<b>\$ 600,982</b>	<b>-</b>	<b>5,000</b>	<b>-</b>	<b>\$ 605,982</b>

	<b>&lt;1 year</b>	<b>1 to 3 years</b>	<b>4 to 5 years</b>	<b>&gt;5 years</b>	<b>Total</b>
Accounts payable and accrued liabilities	\$ 41,391	-	5,000	-	\$ 46,391
Due to related party	265,852	-	-	-	265,852
Funds held in trust	5,752	-	-	-	5,752
<b>Balance August 31, 2018</b>	<b>\$ 312,995</b>	<b>-</b>	<b>5,000</b>	<b>-</b>	<b>\$ 317,995</b>

### Foreign exchange risk

The Company incurs certain operating expenses and capital expenditures in U.S. dollars. Accordingly, the fluctuations in the exchange rate between the U.S. and Canadian dollar can impact the Company's reported results.

### Interest rate risk

Interest risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. When the Company has cash balances, the Company's current policy is to invest excess cash in certificates of deposit or high interest savings accounts of major Canadian chartered banks. As of August 31, 2019, and 2018, the Company had no investment. The other financial assets and liabilities of the Company do not bear interest. The Company does not use financial derivatives to decrease its exposure to interest risk. Management believes that the Company is not subject to significant interest rate risk.

### Credit Facilities

The Company does not have a credit facility outstanding as at August 31, 2019.

### Contractual Obligations

As of August 31, 2019, the Company has no lease commitments on its premises.

## Off Balance Sheet Arrangements

As at August 31, 2019, the Company had no off-balance sheet arrangements.

## Related Party Transactions

The Company's related parties are its Board of Directors and key management personnel: President and Chief Executive Officer, Chief Financial Officer, and President of wholly owned subsidiary (Darelle Media Inc.). Transactions conducted with related parties took place in the normal course of operations and are measured at the amount of consideration established and agreed to by the related parties. Details of the related party transactions follows:

- a) During the year ended August 31, 2019, the Company incurred and recorded \$240,000 (2018 - \$240,000) as management fees pursuant to contracts with two companies owned by an officer of the Company and an officer of a wholly owned subsidiary of the Company. Under the terms of the agreements effective February 6, 2015, the officer of the company and wholly owned subsidiary will receive a monthly consulting fee of \$10,000. At August 31, 2019, \$500,852 (2018 – \$265,852) was included in accounts payable to these companies for consulting fees rendered.

## Key Management Personnel and Director Remuneration

	August 31, 2019	August 31, 2018
Management fees	\$240,000	\$240,000
Share based compensation	-	109,419
	<b>\$240,000</b>	<b>\$349,419</b>

## Equity Transactions

Pursuant to the private placement that was closed on January 15, 2018, two directors, Allen Scott Hamilton and Robert Solinger, participated in the placement for proceeds of \$15,000 and \$10,000, respectively.

## Outstanding Share Data

### Common shares outstanding

The Company has 73,708,147 (2018 – 73,708,147) common shares outstanding as at August 31, 2019.

The following table provides the weighted average number of common shares outstanding for purposes of computing loss per share for the relevant periods:

				For the quarter ended August 31,	
				2019	2018
Weighted average	Common	Shares		73,708,147	71,604,886
Outstanding					
				For the year ended August 31,	
				2019	2018
Weighted average	Common	Shares		73,708,147	72,094,174
Outstanding					

In conjunction with the acquisition of Darelle Media Inc. certain security holders were subject to a Tier 2 Value Security Escrow Agreement dated January 31, 2015 for 9,956,480 common shares of the Company. These shares are subject to six-month release intervals starting on February 6, 2015 at 10% of the initial escrowed total then increasing to 15% thereafter. During the year ended August 31, 2019, Nil (2018 – 1,493,469) of the escrow shares were released and as at August 31, 2019, Nil (2018 – Nil) remain in escrow.

### Stock Options and Warrants Outstanding

The following table summarizes activity under the Company's stock option plan as of August 31, 2019:

	Number of options	Weighted average exercise price
Balance outstanding – August 31, 2017	3,500,000	\$0.05
Issued	3,575,000	\$0.05
Balance outstanding – August 31, 2018	7,075,000	\$0.05
Expired during the year	(950,000)	\$0.05
Forfeited during the year	(200,000)	\$0.05
<b>Balance outstanding – August 31, 2019</b>	<b>5,925,000</b>	<b>\$0.05</b>

As at August 31, 2019, the following stock options were outstanding and exercisable:

Exercise Price	Number of options outstanding	Expiry date	Number of options exercisable	Remaining contractual life (years)
\$ 0.05	1,000,000	February 10, 2020	1,000,000	0.45
\$ 0.05	1,550,000	February 8, 2021	1,550,000	1.44
\$ 0.05	3,375,000	January 14, 2023	3,375,000	3.38
	<b>5,925,000</b>		<b>5,925,000</b>	

The weighted-average remaining contractual life of options outstanding at August 31, 2019 was 2.34 years.

The Company has the following warrants outstanding:

Expiry	Exercise Price (CAD \$)	Number of Warrants	Expiry
March 2, 2019	\$0.05	10,000,000	March 2, 2019
July 19, 2019	\$0.05	2,235,657	July 19, 2019
March 20, 2020	0.075	2,570,500	March 20, 2020
January 15, 2020	0.075	4,300,000	January 15, 2020
Warrants outstanding at August 31, 2018		19,105,657	
Expire warrants – March 2, 2019	\$0.05	(10,000,000)	
Expire warrants – July 19, 2019	0.05	(2,235,657)	
Warrants outstanding at August 31, 2019		6,870,500	

The weighted-average remaining contractual life of options outstanding at August 31, 2019 was 0.40 years.

## **Risks & Uncertainties**

The Company, being a “Venture” issuer is exempted from filing an Annual Information Form. However, a detailed explanation of the risk factors which the Company is faced with is provided in the Company’s Management Information Circular dated December 2, 2019 at [www.sedar.com](http://www.sedar.com) . A number of the key risks, as well as the strategies that management employs to manage these risks, are discussed briefly below:

While risk management cannot eliminate the impact of all potential risks, the Company will strive to manage such risks to the extent possible and practicable. The risks and uncertainties described in this section are considered by management to be the most important in the context of the businesses of the Company. The risks and uncertainties below are not inclusive of all the risks and uncertainties the Company may be subject to, as other risks may apply.

### **Risks Related to the Business of the Company**

#### ***The Company does not have an operating history***

The Company has no history of earnings; it has not paid any dividends and it is unlikely to pay any dividends in the immediate or foreseeable future. As such, the Company is subject to many risks common to such enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other, and lack of revenues. The success of the Company will depend entirely on the expertise, ability, judgment, discretion, integrity and good faith of its senior management.

#### ***Lack of Access to Future Financing***

The Company intends to continue to make investments to support the development and business growth and may require additional funds to respond to business challenges, including the need to develop new products or enhance existing products under development. Accordingly, the Company may need to engage in equity or debt financings to secure additional funds. If additional funds are raised through further issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and new equity securities issued could have rights, preferences and privileges superior to those of holders of The Company’s common shares. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, additional financing may not be available on favourable terms, if at all. If the Company is unable to obtain adequate financing or financing on terms satisfactory to them, when they require it, their ability to continue to support business development and growth and to respond to business challenges could be significantly limited.

#### ***Quarterly Results May Fluctuate***

The Company may experience significant fluctuations in future quarterly operating results that may be caused by many factors, including the following:

Limited operating history;

Changes in pricing policies by the Company or its competitors;

Changes in level of marketing and other operating expenses to support future growth;

Competitive factors; and General economic conditions.

In addition, the Company's expenses will be largely based on anticipated revenue. As a result, a delay in generating or recognizing revenues could cause significant variations in operating results from quarter to quarter and could result in substantial operating losses.

### ***Economic Risk***

There is no guarantee that the Company will be able to generate sufficient cash flow from operations or through the incurrence of short or long-term debt. Additionally, the incurrence of future debt will increase the Company's interest expense.

### ***No Anticipation of Paying Dividends***

No dividends have been paid to date on the Company's Shares. Management of the Company anticipates that for the foreseeable future earnings, if any, will be retained for use in the business and that no cash dividends will be paid.

### ***There is no U.S. public market for Company Shares***

At the present time, there is no U.S. public market for the Company's securities. It is possible that a regular trading market will not develop, or if developed, that a market will not be sustained. Any market for the Company's securities that may develop will very likely be a limited one. In any event, due to the low price of the stock, many brokerage firms may choose not to engage in market making activities or effect transactions in such securities. Purchasers of the Company's securities may have difficulties in reselling them and many banks may not grant loans utilizing the Company's securities as collateral. The securities are not eligible for listing on the NASDAQ Stock Market and may never be eligible or listed on a U.S. exchange.

### ***Limited Operating History and Evolving Business Model***

darelle has a limited operating history and its business model is continually evolving. darelle has not earned operating profits and the company has incurred losses since inception. darelle may not be able to achieve or maintain profitability and darelle may continue to incur significant losses in the future. If darelle's revenues do not materialize to offset costs and operating expenses, darelle will not be profitable.

### ***Key Management Personnel***

The business and future operating results of darelle depend in part upon its ability to attract, groom and retain qualified management, technical, sales and support personnel for its operations. The loss of key personnel could negatively impact darelle's operations. darelle plans to hire additional personnel as needed, in all areas of its business, particularly for its sales, marketing and technology development areas. Competition for qualified personnel is intense and darelle cannot guarantee that it will be able to attract, train and then retain qualified personnel.

### ***Intense Competition***

The online e-commerce marketing industry has seen many new competitors in the past twenty-four months, and the industry is quickly becoming highly competitive and darelle may face additional competition from small-to-medium size competitors and from competitors that are better funded than darelle. Specific factors upon which darelle will compete will include, but are not limited to, functionality of its platform, technological sophistication, ease of use, timing for implementation, hosting of its offering, quality of support and services, and fees. Some of darelle's current and potential competitors have longer operating histories, greater name recognition, access to larger customers' bases and substantially greater resources, including sales and marketing, financial and other resources. As a result, these competitors may be able to:

- absorb costs associated with providing their products at a lower price;
- devote more resources to new customer acquisitions;
- respond to evolving market needs more quickly than darelle can; and
- finance more research and development activities to develop better services.

### ***Rapidly Changing Technological Development***

The market for darelle's services will be characterized by rapid technological advances, changes in customer requirements, changes in protocols and evolving industry standards. If darelle is unable to develop enhancements to, and new features, for its intended services that keep pace with rapid technological developments, its services may become obsolete, less marketable and less competitive and darelle's business will be harmed.

### ***Network Expansion and Systems***

In the future, darelle may need to expand its network and systems at a rapid pace. darelle's network or systems may not be capable of meeting the demand for increased capacity, or darelle may incur additional unanticipated expenses to accommodate these capacity demands.

### ***Development of Intellectual Property***

darelle does not have any patents or patent applications pending with respect to its social communication and e-commerce platform ("Platform"). Even if darelle applied for patents in the future, there is no certainty that any patent will be granted, that any future patent will not be challenged, invalidated or circumvented, or that rights granted under any patent issued to it will afford a competitive advantage. darelle will rely on a combination of copyright, trademark and trade secret laws and restrictions on disclosure to protect its intellectual property rights. The foregoing affords only limited protection.

### ***Protection of Intellectual Property***

darelle depends on its ability to develop and maintain proprietary aspects of its technology. It seeks to protect its software, documentation and other written material under trade secret and copyright law, as well as with confidentiality provisions in contracts with its customers, suppliers, contractors and employees all of which afford limited protection. Despite the measures darelle will take to protect its intellectual property, there can be no assurance that these steps will be adequate or that third parties will not breach the confidentiality provisions in darelle's contracts or infringe or misappropriate its intellectual property.

### ***Privacy Concerns***

Although darelle intends to comply with all relevant privacy legislation, there is the possibility that a lawsuit could be brought against darelle with respect to the proper handling and use of confidential information obtained by darelle through its Platform and the collection of personal information.

### ***Technological and Network Problems***

darelle's services will be entirely dependent on specific technologies and networks. Despite redundancy built into the hosting operations, there is a risk of a disaster at the hosting facility, the penetration of the host system by a hacker, the failure of internal systems or infrastructure.

### ***Changes in Internet-related and Other Laws***

Laws and regulations that apply to communications and commerce over the Internet are becoming more prevalent. The growth and development of the market for online commerce has prompted calls for more stringent tax, consumer protection and privacy laws, both in Canada and abroad, that may impose additional burdens on companies conducting business online. This could negatively affect the business development of darelle and reduce demand for its services. Internet-related laws, however, remain unsettled, even in areas where there has been some legislative action. The adoption or modification of laws or regulations relating to the Internet or darelle's intended operations, or interpretations of existing law, could adversely affect darelle.

### **Approval**

The board of directors has approved the disclosure contained in this MD&A. Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).