

# **DARELLE ONLINE SOLUTIONS INC.**

**Management's Discussion & Analysis**

**Quarter ended May 31, 2020**

Dated July 24, 2020

**July 24, 2020**

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 unaudited interim condensed consolidated financial statements and related notes therein (“interim Financial Statements”) for the three and nine month periods ended May 31, 2020 and May 31, 2019, as well as the audited consolidated financial statements with accompanying notes for the year ended August 31, 2019, which have been 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 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. The Company undertakes no obligation to update or revise any forward-looking statements or information made in this MD&A, except as required under applicable securities legislation.

## **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 5, 2015.

## Company Activity

On July 8, 2020 the Company completed its first Dream Home Lottery with the Kamloops Community YMCA-YWCA. The raffle included an online 50/50 program with both the Dream Home Lottery and 50/50 program effectively selling out. The Dream Home Lottery included the drawing of 832 prizes utilizing the Company's certified random number generator.

On June 26, 2019, the Company announced it had entered into an arm's length binding letter of intent ("LOI") with North Star Holdings ("North Star") in which the securityholders of North Star would acquire control of the Company ("Proposed Transaction"). Under the terms of the LOI, the Transaction was to be consummated on or before December 31, 2019. Subsequent to December 31, 2019, the Company signed a number of extensions to the LOI and on June 24, 2020, the Company signed an agreement extending the terms of the LOI with North Star until September 30, 2020.

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.

## Selected Annual Information

For Fiscal Years Ended August 31

	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

## 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 period ended May 31, 2020 are noted below:

- Cash used by operations and capital requirements was \$50,785 for the period compared to cash provided by operations of \$11,700 for the same period in fiscal 2019.
- Net loss was \$279,579 ((\$0.00) per share) for the period, decreased by \$23,139, or 8% compared to the same period in fiscal 2019.

## Results of Operations

The following table sets forth a comparison of revenues, earnings, major expense category for the three and nine month periods ended May 31, 2020 and May 31, 2019:

	Three Months Ended May 31, 2020	Three Months Ended May 31, 2019	Nine months Ended May 31, 2020	Nine months Ended May 31, 2019
Revenue	30,537	56,050	72,132	101,704
Expenses:				
Consulting fees	9,275	30,775	51,275	77,631
Amortization	24,097	31,815	72,291	95,445
Salary, wages, and benefits	25,730	-	25,730	-
General and administrative Management fees	5,198	11,262	15,155	18,228
Marketing Professional fees	60,000	60,000	169,900	180,000
Transfer agent & filing fees	-	711	-	821
Travel	5,125	5,125	18,045	20,800
Total Expenses	5,702	764	14,367	10,789
Other income:				
Federal wage subsidy	-	627	309	708
	135,127	141,079	367,072	404,422
Net loss for the period	(89,229)	(85,029)	(279,579)	(302,718)
Basic loss per share	(0.00)	(0.00)	(0.00)	(0.00)
Weighted average # of shares outstanding	73,708,147	73,708,147	73,708,147	73,708,147

## Revenue

The Company realized revenue of \$30,537 during the third quarter of the 2020 fiscal year compared with revenue of \$56,050 during the same three-month period of the 2019 fiscal year. . Revenue is typically comprised of a set-up fee and a flat administration fee per ticket sold by organizations. The set-up fee is non-refundable and is payable once an organization enters into a service agreement with the Company.

The Company realizes a flat administration fee per each raffle ticket (“processing fees”) once the organization begins to sell raffle tickets. The Company realized set-up fee revenue of \$3,500 and processing fees of \$27,037 during the third quarter of the 2020 fiscal year. This compares to set up fee revenue of \$875 and processing fees of \$55,175 during the same three-month period of the 2019 fiscal year. Processing fees are recognized once an individual raffle has closed or sells out. During the third quarter of 2020, the global emergence of the coronavirus (“COVID-19”) occurred which has had a negative impact on revenues for the Company. During the quarter, one organization suspended an existing raffle while two other organizations elected to delay raffle programs they had agreed to with the Company.

Revenue for the nine month period ended May 31, 2020 were \$72,132 compared with revenue of \$101,704 for the same nine-month period of the 2019 fiscal year. The Company realized set-up fee revenue of \$20,708 and processing fees of \$51,424 during the first nine month of the 2020 fiscal year. This compares to set up fee revenue of \$16,625 and processing fees of \$85,080 during the same nine months of the 2019 fiscal year. Again, the negative impact of COVID-19 continues to impact the level of revenue realized by the Company.

### **Consulting Fees**

Consulting fees were \$51,275 for the nine-month period ended May 31, 2020 compared to \$46,856 during the same nine-month period in 2019. Consulting fees include fees paid to software programmers. Consulting fees were \$9,275 for the third quarter of 2020 fiscal year compared with \$30,775 during the same quarter of the 2019 fiscal year. During the third quarter of 2020 the Company elected to offer employment to two consultants providing services to the Company. Both employment positions are full-time in nature. The Company will continue to monitor its position based upon financial resources available to the Company.

### **Amortization**

Amortization expense was \$72,291 for the nine-month period ended May 31, 2020 compared to \$95,445 for the same nine-month period in 2019. 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 expenditures are amortized over their useful life which has been estimated at five years. During the 2019 fiscal year the Company realized an impairment of intangible assets of \$167,113 resulting in lower capitalized intangible assets and a corresponding lower amortization cost for the 2020 fiscal year. Amortization expense was \$24,097 for the third quarter of 2020 compared to \$31,815 during the same three-month period in 2019.

### **Salary, Wages, and Benefits**

Salary, wages and benefits were \$25,730 for the nine-month period ended May 31, 2020 compared to \$Nil during the same nine-month period in 2019. Consulting fees were \$25,730 for the third quarter of 2020 fiscal year compared with \$Nil during the same quarter of the 2019 fiscal year. During the third quarter of 2020 the Company elected to offer employment to two consultants providing services to the Company. The Company has applied and received funding under the Canada Emergency Wage Subsidy (CEWS) program. The Government of Canada recently announced that the CEWS program could be extended until December 2020. The Company continues to review its revenue relative to historic levels on a period-over-period basis to determine if the Company can apply and receive future funding under the CEWS program.

### **General and Administrative**

General and administrative (“G&A”) expenses were \$15,155 for the nine months ended May 31, 2020, compared to \$18,226 for the same nine-month period in 2019. G&A expenses are mainly costs associated with the company’s computer servers, software certification and filing costs, office supplies, travel, entertainment, and administrative costs. General and administrative (“G&A”) expenses were \$5,198 for the third quarter of 2020, compared to \$11,262 for the same period in 2019. These are mainly costs associated with the company’s computer servers, office supplies, travel and entertainment and administrative costs.

## **Management Fees**

Management fees were \$169,900 for the nine-month period ended May 31, 2020 compared to \$180,000 for the same period of 2019 fiscal year. Management fees include management consulting fees associated with an officer of the Company and a President of the wholly owned subsidiary (Darelle Media Inc.) (collectively referred to as "Officers"). Under the terms of the consulting agreements each officer will receive a monthly consulting fee of \$10,000 per month. Effective January 1, 2020, the Officers agreed to bill the Company consulting fees based upon an hourly rate for services provided up to the monthly maximum of \$10,000 per month. Management fees were \$60,000 for the three-month period ended May 31, 2020 compared to \$60,000 for the same period of 2019 fiscal year.

## **Marketing**

Marketing expenses were \$Nil for the nine-month period ended May 31, 2020 compared to \$821 for same period of fiscal 2019. Marketing costs are comprised of marketing events, promotion and supplies. Activity was limited during the first nine months of the 2020 fiscal year due to constraints on financial resources. Marketing expenses were \$Nil for the three-month period ended May 31, 2020 compared to \$711 for same period of fiscal 2019.

## **Professional Fees**

Professional fees were \$18,045 for the nine-month period ended May 31, 2020 compared to \$20,800 for same period of 2019. Professional fees include quarterly accrual of audit fees (\$5,125) for the 2020 fiscal year, expensed audit fees from the 2019 financial audit, and bookkeeping fees paid to a third party. Professional fees were \$5,125 for the three-month period ended May 31, 2020 compared to \$5,125 for same period of 2019.

## **Transfer Agent and Filing Fees**

Transfer agent and filing fees were \$14,367 during the nine months ended May 31, 2020 compared to \$10,789 during the same nine-month period of the 2019 fiscal year. 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. Transfer agent and filing fees expense for the third quarter of 2020 was \$5,702 compared with expense of \$764 during the same nine-month period in 2019. Higher costs on a period-over-period basis resulted from the scheduling and hold of the company's annual general meeting.

## **Travel**

The Company had travel expenses of \$309 during nine-month period ended May 31, 2020 compared to \$708 for the same nine-month period in 2019. Travel expenses include travel and accommodation, meals and entertainment. The Company had travel expenses of \$Nil during the third quarter of 2020 compared to \$627 for the same three-month period in 2019. Travel expenses include travel and accommodation, meals, and entertainment.

## **Other Income**

The Company realized other income of \$15,361 during nine-month period ended May 31, 2020 compared to \$Nil for the same nine-month period in 2019. Other income includes funding received under the Canada Emergency Wage Subsidy (CEWS) program. Other income realized occurred during the third quarter of the 2020 fiscal year. Under the program, the Company applied for a wage subsidy based upon 75% of salary, wages, and benefits paid up to a weekly maximum. The Government of Canada announced that the CEWS program could be extended until December 2020. The Company continues to review its revenue relative to historic levels on a period-over-period basis to determine if the Company can apply and receive future funding under the CEWS program.

## Net Loss

Net loss for the nine months ended May 31, 2020 was \$279,579 ((\$0.00) per share) compared to \$302,718 ((\$0.00) for the same nine-month period of the 2019 fiscal year. The Company realized revenue of \$72,132 during the first nine months of the 2020 fiscal year, compared with revenue of \$101,704 during the same nine-month period of the 2019 fiscal year. The decline in revenue was partially offset against funding received under the CEWS program.

Net loss for the third quarter ended May 31, 2020 was \$89,229 ((\$0.00) per share) compared to a net loss of \$85,029 (\$0.00) per share) for the same period in fiscal 2019. The increase in net loss for the period is primarily due to reduced revenue realized during the third quarter of 2020 and were partially offset by funding received under the CEWS program during the quarter. Loss per share for the nine-month periods ended May 31, 2020 and 2019 was calculated based on the weighted average number of common shares outstanding through the quarter.

## Additional Disclosure for Venture Issuers Without Significant Revenue

	2020	2019
Material Expenses:		
Management fees	\$169,900	\$180,000
Consulting fees	\$51,275	\$77,631
Salary, wages, and benefits	25,730	-
General and administrative	\$15,155	\$18,228
Professional fees	\$18,045	\$20,800

## 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 May 31, 2020	Three Month Period Ended Feb. 29, 2020	Three Month Period Ended Nov. 30, 2019	Three Month Period Ended Aug 31, 2019
	\$	\$	\$	\$
Revenue	30,537	19,106	22,489	28,927
Capital Expenses	-	-	-	-
Net Loss	(89,229)	(89,270)	(101,081)	(125,236)
Net Loss Per Share	(0.00)	(0.00)	(0.00)	(0.00)

	Three Month Period Ended May 31, 2019	Three Month Period Ended Feb. 28, 2019	Three Month Period Ended Nov. 30, 2018	Three Month Period Ended Aug 31, 2018
			\$	\$
Revenue	\$	\$	21,202	21,046
Capital Expenses	56,050	24,452	-	-
Net Loss	-	-	(104,838)	(118,141)
Net Loss Per Share	(85,029)	(112,851)	(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

### Capital Employed

	May 31, 2020	August 31, 2019
Non-current assets	\$ 122,666	\$ 194,957
Current assets	31,785	83,317
Current liabilities	(761,738)	(605,982)
Total assets less current liabilities	(607,287)	(327,708)
Non-current liabilities	-	-
Shareholders' equity	(607,287)	(327,708)
	\$ (607,287)	\$ (327,708)

### Non-current assets

Non-current assets decreased by \$48,194 due to the amortization of intangible assets during the period. Intangible assets include development costs associated with the [darelle.com](http://darelle.com) online raffle platform.

### Current assets

Current assets decreased by \$72,291 on May 31, 2020 as compared to August 31, 2019, which is attributed to:

#### Cash

Cash decreased by \$50,785 primarily due to higher cash requirements for operating activities.

#### Receivables

	May 31, 2020	August 31, 2019
Trade receivables	\$ 14,376	\$ 21,261
Allowance for doubtful debts	-	-
Net trade receivables	14,376	21,261
Other receivables	6,710	572
	\$ 21,086	\$ 21,833

## **Current liabilities**

Current liabilities of \$761,738 increased by \$155,756 which is attributed to:

### **Accounts payable and accrued liabilities**

Accounts payable and accrued liabilities increased by \$155,756. The increase is predominantly due to the accrual of unpaid management fees to related parties as of May 31, 2020 of \$169,900. This was partially offset by the payment of suppliers associated with the pending transaction with North Star. The balance is amounts owing to third party suppliers.

## **Non-current liabilities**

The Company had no non-current liabilities outstanding as of May 31, 2020 and August 31, 2019.

## **Shareholders' equity**

Shareholders' equity on May 31, 2020 decreased by \$279,579 as compared to the balance on August 31, 2019 and was attributed to the recognition of a net loss of \$279,579 for the period ended May 31, 2020.

## **Credit Facilities**

The Company does not have a credit facility outstanding as of May 31, 2020.

## **Contractual Obligations**

As of May 31, 2020, the Company has no lease commitments on its premises.

## **Off Balance Sheet Arrangements**

As of May 31, 2020, 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 (CEO), Chief Financial Officer (CFO) and President of a wholly owned subsidiary (Darelle Media Inc.) as well as any companies controlled by key management personnel or directors. 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.

Balances and transactions between the Company and its subsidiary, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Details of the related party transactions follow:

During the period ended May 31, 2020, the Company incurred and recorded \$109,900 (August 31, 2019 - \$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 dated February 6, 2015, the officer of the Company and the wholly owned subsidiary will receive a monthly consulting fee of \$10,000. As of May 31, 2020, \$662,439 (August 31, 2019 - \$500,852) was included in accounts payable to these companies for consulting fees rendered.

<b>Key Management Personnel and Director Remuneration</b>	<b>May 31, 2020</b>	<b>May 31, 2019</b>
Consulting fees	\$169,900	\$120,000
Share-based compensation	-	-
	<b>\$169,900</b>	<b>\$120,000</b>

## Outstanding Share Data

### Common shares outstanding

Authorized share capital consists of an unlimited number of common shares of which 73,708,147 (August 31, 2019 – 73,708,147) were issued and outstanding as of May 31, 2020.

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 three-month periods ended	
	May 31, 2020	May 31, 2019
Weighted average Common Shares Outstanding	73,708,147	73,708,147

	For the periods ended	
	May 31, 2020	May 31, 2019
Weighted average Common Shares Outstanding	73,708,147	73,708,147

## Financial Instruments and Related Risk

Cash and accounts receivable are classified as receivables. Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Accounts payable and accrued liabilities approximate their carrying amount due to their short-term nature. The fair value of any loans and borrowings would be classified as other financial liabilities for valuation purposes under IFRS 9. Other financial liabilities would be measured initially at fair value and subsequently at amortized cost using the effective interest method.

The Company has exposure to credit, liquidity, 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 an economic loss. The Company is exposed to credit risk on its cash and accounts receivable to a maximum of the carrying 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.

As of May 31, 2020, \$12,538 (August 31, 2019 - \$2,599) of the trade accounts receivable balance of

\$14,376 (August 31, 2019 - \$21,261) was past due. Other receivables on May 31, 2020 consist primarily of receivable of \$7,641 (August 31, 2019 - \$Nil) under the CEWS program.

### 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.

### 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:

	<1 year	1 to 3 years	4 to 5 years	>5 years	Total
Accounts payable and accrued liabilities	\$ 94,299	-	5,000		\$ 99,299
Due to related party	662,439	-	-	-	662,439
<b>Balance May 31, 2020</b>	<b>\$ 682,067</b>	<b>-</b>	<b>5,000</b>	<b>-</b>	<b>\$ 761,738</b>

  

	<1 year	1 to 3 years	4 to 5 years	>5 years	Total
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>

### Interest rate risk

Interest rate 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 May 31, 2020, and August 31, 2019, 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.

### 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 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 proposed transaction in 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. In particular, 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 audit committee 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).