# Free Energy International Inc.

## Management's Discussion & Analysis

**For the three month periods ended November 30, 2015 and 2014**

## FREE ENERGY INTERNATIONAL INC. – MD&A

The following management discussion and analysis ("MD&A"), dated January 29, 2016, should be read in conjunction with the Company's interim condensed consolidated financial statements and related notes therein ("Financial Statements") 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.

Additional information regarding Free Energy International Inc. ("FEII" or "the Company") can be found on the System for Electronic Document Analysis and Retrieval (SEDAR) at 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 May 26, 2014. 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

FEII was incorporated under the Business Corporations Act (British Columbia) on February 11, 2005. The head office of the Company is located at Suite 306, 1088 Quebec Street, Vancouver, British Columbia, V6H 4A2 and its registered and records offices are located at #306 1088 Quebec Street, Vancouver, B.C., V6A 4H2.

The Company has the following wholly owned subsidiaries; Free Energy Solutions Inc. ("FESI") which the Company acquired November 5, 2007 and W2E Power Corporation ("W2E") which was incorporated in British Columbia on October 20, 2008, Free Energy Power Corporation ("Power Corp") which was incorporated in British Columbia on August 10, 2010 and Darelle Media Inc. ("Darelle") which was incorporated in British Columbia on January 27, 2015. W2E has been inactive since 2009 and was dissolved for failing to file annual returns on April 16, 2012. Power Corp was formed to pursue the design, construction and operation of an electricity generation plant.

Power Corp discontinued activity on the development of a power generation facility in Northern Alberta during the 2013 fiscal year. Power Corp filed a voluntary dissolution on May 20, 2014. FESI was dissolved for failing to file annual returns on July 21, 2014. FESI is inactive and the Company has no intention of reviving the corporation.

Darelle was acquired by the Company on February 6, 2015.

## Company Activity

On February 6, 2015 the Company acquired all of the outstanding common shares (the "Transaction") of Darelle Media Inc. ("Darelle"). Darelle shareholders received a total of 14,500,000 common shares of the Company in exchange for 10,340,001 common shares of Darelle. The Company also agreed to assume outstanding debt of $165,625 ("Darelle Debt") owed to creditors of Darelle ("Darelle Creditors") in conjunction with the Transaction. (See "Acquisition").

On February 6, 2015 the Company received approval from the TSX Venture Exchange to issue 10,590,000 common shares to settle outstanding debt of $529,500 at a deemed price of $0.05 per common share ("Debt Settlement"). Included in the proposed Debt Settlement is the settlement of $165,625 in debt owing to creditors of Darelle with the issuance of 3,312,500 common shares of the company at a deemed price of $0.05 per common share.

Darelle launched its online marketplace ("Darelle" and/or www.Darelle.com) with a focus in the Greater Vancouver area during the third quarter of the 2015 fiscal year. Darelle is a cause driven online marketplace designed to bring consumers, businesses and charities together to provide opportunities to buy and sell, while benefiting the community with each transaction.

On April 14, 2015, Darelle announced that it had brought on three new Key Charity Partners on the Darelle site including Big Brothers of Greater Vancouver, the Gastrointestinal Society and the Loaves and Fishes Community Food Bank ("Key Charity Partnership"). A Key Charity Partnership involves generating consumer demand for Buy Requests created specifically to benefit each charitable organization. Buy Requests are expressions of interest for certain types of products or services that consumers may want to purchase. Consumers join a Buy Request to let businesses know they are interested in receiving Offers. The Buy Requests are matched to businesses to fulfill the demand by submitting offers to consumers to purchase. Darelle will be paid a fee once a transaction is processed on the Darelle website. Darelle donates a minimum of 25% of the revenue generated on each transaction to the Charity selected by the user.

On September 22, 2015, Darelle announced it had launched two new programs as an extension of its e-commerce platform. Darelle will host event ticket sales for two events for Charity Partners in conjunction with the Charity Partner Ticket program the Company launched in September. Under the terms of the new program Darelle will provide an e-commerce platform for Charity Partners to use in the sale of tickets for various fundraising events. Darelle will also provide ticket redemption and data base management for Charity Partners. Darelle was selected as the exclusive electronic ticket vendor for the Vancouver International South Asian Film Festival ("VISAFF"). The 5$^{th}$ Annual VISAFF ran from November 27-29, 2015 and incorporated feature films, shorts and documentaries, and an Opening and Closing Gala. Darelle will also host online ticket sales for the Rare Disease Foundation in conjunction with the 6$^{th}$ Annual Rare Finds Gala being held on April 23, 2016 at the Sheraton Wall Centre in Vancouver. The event ticketing program provides a simple to use, cost effective way to manage ticket sales for a variety of events and fundraisers. Darelle will also host a fundraising drive to benefit the Royal Columbian Hospital Foundation. The donation management program is easy to set up and provides all of the necessary reporting and tracking tools to seamlessly integrate into any campaign.

On November 25, 2015, the Company announced its intention to complete a private placement sale of 15,000,000 units ("Unit"), at $0.035 per Unit, to provide the Company with gross proceeds of $525,000. Each Unit will consist of one (1) common share of the Company and one share purchase warrant of the Company. Each whole warrant will be exercisable for a period of thirty six months to purchase one (1) additional common share of the Company for $0.05.

## Acquisition

On February 6, 2015 the Company acquired all of the outstanding common shares (the “Transaction”) of Darelle Media Inc. (“Darelle”). Darelle shareholders received a total of 14,500,000 common shares of the Company in exchange for 10,340,001 common shares of Darelle. The Company also agreed to assume outstanding debt of $165,625 (“Darelle Debt”) owed to creditors of Darelle (“Darelle Creditors”) in conjunction with the Transaction.

The transaction has been accounted for as a business combination using the acquisition method, with the Company identified as the acquirer. The Company’s condensed consolidated statements of comprehensive loss include the operating results of Darelle from February 6, 2015, the date of acquisition.

The following table summarizes the preliminary allocation of the purchase of the fair value of the assets acquired and liabilities assumed at the date of acquisition.

| | | |
|---|---|---|
| **Current assets** | **$** | **31,868** |
| **Intangible assets** | | 300,582 |
| **Liabilities assumed** | | (263,791) |
| **Total net assets acquired** | | **68,659** |
| | | |
| **Consideration paid:** | | |
| **- Shares** | $ | 580,000 |
| | | **580,000** |
| | | |
| **Goodwill** | **$** | **511,341** |

Goodwill was established with the acquisition of Darelle on February 6, 2015 of $511,341 as the residual amount when the purchase price exceeded the amounts allocated to the identifiable assets less liabilities assumed based on fair value.

## 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 quarter ended November 30, 2015 are noted below:

- Cash used by operations and capital requirements was $89,047 for the quarter compared to cash used by operations of $12,685 for the same period in fiscal 2014.
- Net loss was $7,581 (($0.00) per share) for the quarter, decreased by $23,200, or 75% compared to the same period in fiscal 2014.

## Selected Annual Information

| | **2015** | **2014** | **2013** |
|---|---|---|---|
| | $ | $ | $ |
| Revenue | - | - | 25,000 |
| Gross profit | - | - | 25,000 |
| Gross margin % | - | - | 100% |
| Earnings (loss) before income taxes | (673,915) | (37,324) | 416,027 |
| Earnings (loss) | (673,915) | (37,324) | 416,027 |
| EPS - Basic | (0.02) | (0.00) | 0.25 |
| Total assets | 672,351 | 158,943 | 26,034 |
| 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 three month periods ended November 30, 2015 and 2014:

| | Three Months Ended | |
|---|---|---|
| | November 30, 2015 | November 30, 2014 |
| Revenue | $ - | $ - |
| Gross profit | - | - |
| Expenses | | |
| Consulting fees | 9,000 | - |
| General and administrative | 3,431 | 1,970 |
| Management fees | 60,000 | 3,750 |
| Marketing | 1,124 | - |
| Professional fees | 152 | - |
| Stock based compensation (note 6) | 4,411 | - |
| Transfer agent & filing fees | 2,551 | 1,861 |
| Travel | 828 | - |
| Net loss for the period | $ (81,497) | $ (7,581) |
| Basic and diluted loss per share | $ (0.00) | $ (0.00) |
| Weighted average # of shares outstanding | 51,199,990 | 20,166,250 |

### Consulting Fees
Consulting fees for the first quarter were $9,000 compared with consulting fees of $Nill for the same three month period of the 2015 fiscal year. The company engaged sales consultants in conjunction with the Darelle website during the period. Consultants are engaged on a contract basis.

### General and Administrative
General and administrative ("G&A") expenses were $3,431 for the first quarter of 2016, increased from $1,970 for the same period in 2015. These are mainly costs associated with the company's computer servers, office supplies, travel and and entertainment and administrative costs.

### Management Fees
Management fees were $60,000 for the three month period ended November 30, 2015 compared to $3,750 for the same period of 2015 fiscal year. Management fees include management consulting fees ($60,000) associated with the appointment of an officer of the Company and a President of the wholly owned subsidiary (Darelle Media Inc.) on February 6, 2015. Under the terms of the consulting agreements each officer will receive a monthly consulting fee of $10,000 per month ("Management Consulting Fees"). Both officers agreed to defer the payment of $5,000 of the month fees for a period of six months.

### Marketing
Marketing expenses were $1,124 for the three month period ended November 30, 2015 compared to Nil for same period of fiscal 2014. Marketing costs are attributed to contractors hired to work on the marketing efforts associated with the launch of the Darelle website.

### Professional Fees
Professional fees of $152 for the three month period ended November 30, 2015 compared to Nil for same period of 2014. Professional fees include an accrual for audit fees for the 2016 fiscal year and

bookkeeping fees paid to a third party. These fees were partially offset by a recovery of professional fees of approximately $7,200 which was negotiated in conjunction with outstanding professional fees for Darelle Media Inc. for the 2012 fiscal year.

### Stock Based Compensation

Stock based compensation for the first quarter of 2016 was $4,411 compared with stock based compensation of $Nil during the first quarter of the 2015 fiscal year. During the second quarter of the 2015 fiscal year, the Company granted 1,175,000 stock options to officers and contractors of the Company in conjunction with the acquisition of Darelle ("Darelle Options"). The Darelle Options vest over periods of twelve and twenty-four month periods. The stock options were issued with an exercise price of $0.05. The amounts were recorded as other equity reserves on the balance sheet and as stock based compensation on the statements of comprehensive income.

### Transfer Agent and Filing Fees

Transfer agent and filing fees expense for the first quarter of 2016 was $2,551 compared with expense of $1,861 during the same three month period in 2015. The increase is due to increase filings during the current period and scheduling of the company's annual general meeting of shareholders.

### Travel

The Company had travel expenses of $828 during the first quarter of 2016 compared to $Nil for the same three month period in 2015. This is attributed to the travel related to the operations of Darelle Media.

### Net Loss

Net loss for the first quarter ended November 30, 2015 was $81,497 (($0.00) per share) compared to a net loss of $7,581 ($0.00) per share) for the same period in fiscal 2015. The increase in net loss for the period is primarily related the increase in management and consulting fees associated with the acquisition of Darelle Media Inc. (see "Acquisition").

Loss per share for the three month periods ended November 30, 2015 and 2014 was calculated based on the weighted average number of common shares outstanding through the quarter.

## Additional Disclosure for Venture Issuers Without Significant Revenue

| | **2015** | **2014** |
|---|---|---|
| Development of Intangible Asset | $21,000 | - |
| Material Expenses: | | |
| Management fees | $60,000 | $3,750 |
| Consulting fees | $9,000 | - |

## 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 Nov. 30, 2015 | Three Month Period Ended Aug 31, 2015 | Three Month Period Ended May 31, 2015 | Three Month Period Ended Feb. 28, 2015 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Revenue | - | - | - | - |
| Capital Expenses | - | - | - | - |
| Net Loss | (81,497) | (533,554) | (99,819) | (32,961) |
| Net Loss Per Share | (0.00) | (0.01) | (0.00) | (0.00) |

| | Three Month Period Ended Nov. 30, 2014 | Three Month Period Ended Aug 31, 2014 | Three Month Period Ended May 31, 2014 | Three Month Period Ended Feb. 28, 2014 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Revenue | - | - | - | - |
| Capital Expenses | - | - | - | - |
| Net Loss | (7,581) | (38,856) | (12,548) | (44,771) |
| 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.

## Cash Flows, Liquidity and Capital Resources

### Cash Flows

Cash and cash equivalents balance was $57,267 at November 30, 2015, a decrease of $18,603 in the first three months from $75,870 at August 31, 2015.

Cash used by operations for the first three months of fiscal 2016 was $47,603 compared to cash used by operations of $89,047 for the same period in the 2015 fiscal year. The decrease in cash used by operations for the quarter was the result of a lower operating loss for the quarter and by changes in non-cash operating working capital items including GST/HST receivable, prepaid expenses and accounts payables and accrued liabilities.

Cash provided by financing activities for the three month period ended November 30, 2015 was $50,000 compared with $336,750 during the same three month period of the 2015 fiscal year. During the first quarter, the Company received subscriptions in advance of a private placement the Company announced on November 25, 2015. The Company announced its intention to complete a private placement sale of 15,000,000 units (“Unit”), at $0.035 per Unit, to provide the Company with gross proceeds of $525,000. Each Unit will consist of one (1) common share of the Company and one share purchase warrant of the Company. Each whole warrant will be exercisable for a period of 36 months to purchase one (1) additional common share of the Company for $0.05. Subscriptions received in advance of the issue of common shares are non-interest bearing. The Company completed a private placement issuing 10,000,000 common shares at a price of $0.05 per common share during the 2015 fiscal year. The Company realized net proceeds of $496,750. Cash provided by financing activities during the period were offset by a reduction of subscriptions received in advance of $160,000 which reflect proceeds of the private placement received prior to the first quarter of the 2015 fiscal year.

Cash used in investing activities during the three month period ended November 30, 2015 was $21,000 compared with $Nil during the same three month period in the prior year. The Company incurred $21,000 in the development of intangible assets pertaining to the Darelle.com website.

## Liquidity and Capital Resources

Since incorporation, the Company financed operations primarily through the issuance of equity and convertible debt. At November 30, 2015, the Company had cash and cash equivalents of $57,267 compared to $75,870 at August 31, 2015.

The Company has not pledged any of its assets as security for loans, and is not otherwise subject to any debt covenants.

Cash as at November 30, 2015 and forecasted cash receipts from sales are insufficient to meet current working capital requirements and the anticipated cash needs through the next twelve months.

The following are the contractual maturities of financial liabilities and commitments as at November 30, 2015:

| | Undiscounted contractual cash flows $ | 0 to 12 months $ | 12 to 24 months $ | After 24 months $ |
|---|---|---|---|---|
| **Financial liabilities** | | | | |
| Accounts payable and accrued liabilities | 204,171 | 204,171 | - | - |
| | 204,171 | 204,171 | | |

It is the Company’s intention to meet these obligations with the cash proceeds from equity financings and future cash flow from operations.

## Credit Facilities

The Company does not have a credit facility outstanding as at November 30, 2015.

## Contractual Obligations

As of November 30, 2015, the Company has no lease commitments on its premises.

## Off Balance Sheet Arrangements

As at November 30, 2015, the Company had no off balance sheet arrangements.

## Related Party Transactions

These transactions were in the normal course of operations and were valued in these consolidated financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties:

During the period, the Company incurred and recorded $60,000 (2014 - $3,750) as management fees pursuant to contracts with two companies owned by two officers of the Company. Under the terms of the agreements dated February 6, 2015, each officer will receive a monthly consulting fee of $10,000 of which $5,000 will be deferred in terms of payment for a six month period. At November 30, 2015, $100,000 (August 31, 2015 – $70,000) was included in accounts payable to these companies for consulting fees rendered.

| **Key Management Personnel** | **November 30, 2015** | **November 30, 2014** |
|---|---|---|
| Consulting fees | $60,000 | $3,750 |
| | **$60,000** | **$3,750** |

## Outstanding Share Data

### Common shares outstanding

Authorized share capital consists of an unlimited number of common shares of which 51,199,990 were issued and outstanding as at November 30, 2015 and 51,199,990 were outstanding as at August 31, 2015.

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 November 30, 2015 | 2014 |
|---|---|---|
| Weighted average Common Shares Outstanding | 51,199,990 | 20,166,250 |

### Stock Options and Warrants Outstanding

As at November 30, 2015, the following stock options were outstanding and exercisable:

| **Exercise Price** | **Number of options outstanding** | **Expiry date** | **Number of options exercisable** | **Remaining contractual life (years)** |
|---|---|---|---|---|
| $ 0.30 | 25,000 | December 22, 2015 | 25,000 | 0.01 |
| $ 0.50 | 1,100,000 | June 23, 2019 | 1,072,222 | 3.54 |
| $ 0.05 | 1,000,000 | February 10, 2020 | 683,334 | 4.17 |
| | 2,125,000 | | 1,780,556 | |

The weighted-average remaining contractual life of options outstanding at November 30, 2015 was 3.91 years.

**Summary of Significant Accounting Policies**

Management's discussion and analysis of operating results and financial condition are made with reference to the Company's audited consolidated financial statements as at, and for the years ended August 31, 2015 and 2014, and the notes thereto, which have been prepared in accordance with IFRS. The Company's significant accounting policies are summarized in detail in Note 2 of the Company's consolidated financial statements as at, and for the years ended August 31, 2015 and 2014 and in Note 2 of the Company have audited consolidated financial statements for the year ended August 31, 2015.

## Adoption of New Accounting Policies

The Company has recently adopted certain new standards, amendments and interpretations to existing standards, which have been published and are effective only for accounting periods beginning on or after September 1, 2014. The adoption of these standards had no material impact on these consolidated financial statements. They include:

- IAS 32 – Financial Instrument Presentation
- IFRIC 21 – Levies

The Company has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published but are not yet effective:

- IFRS 9 – Financial Instruments: Classification and Measurement, effective for periods beginning on or after January 1, 2018
- IFRS 15 – Revenue from Contracts with customers, effective for periods beginning on or after January 1, 2018

These standards and interpretations have not been adopted and are yet to be assessed by the Company.

## Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with IFRS requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported periods. Significant estimates and assumptions are used in determining the application of the going concern concept, assumptions used to determine the fair value of stock-based compensation, and valuations of short and long term investments. The Company evaluates its estimates on an ongoing basis and bases them on various assumptions that are believed to be reasonable under the circumstances. The Company's estimates form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company believes the policies for going concern, stock based compensation, short and long term investments, and convertible debt are critical accounting policies which involve significant judgments and estimates used in the preparation of the Company's financial statements. Our accounting policies are described in note 2 to the audited financial statements.

## 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 November 20, 2015 at 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;

Pace of development of development for Torpedo Heat Reclamation Product and the Well Head Heater Project;

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.

### *Technology and Competitive Risks*

The Torpedo Heat Reclamation Product and the Well Head Heater Product all comprise technology that is in the development stage. Risks remain related to the successful completion of the product development and testing programs, and the Company's ability to meet the required cost, reliability and performance standards of viable commercial offerings. Nevertheless, technical risks and uncertainties will remain until the prototypes for each product line have been successfully operated under standard commercial requirements. The Company currently faces, and will continue to face competition from suppliers of comparable conventional systems.

### *Regulatory Risks*

Permitting by Government bodies for installation of the Torpedo Heat Reclamation Product and the Well Head Heater Project will require industry standard, UL or CSA testing and certification is completed and obtained before a widespread installation base can be achieved. The Company plans to instigate applications for installations at the earliest stages possible in the development cycle to mitigate this risk.

### *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.

### *Business and Pricing Model*

Darelle has limited experience with respect to its pricing model and if the prices charged for services are unacceptable to customers, revenues and operating results will be harmed.

### *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.