

**ECC VENTURES 2 CORP.  
INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019**

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**Dated: November 26, 2019**

**MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

This interim management's discussion and analysis ("MD&A") reports on the operating results and financial condition of ECC Ventures 2 Corp. for the nine months ended September 30, 2019 and is prepared as at November 26, 2019. Throughout this interim MD&A, unless otherwise specified, "ECC2", "Company", "we", "us" and "our" refer to ECC Ventures 2 Corp. This interim MD&A should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2018 and the notes thereto which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB"), together with the unaudited condensed interim financial statements as at and for the nine months ended September 30, 2019, which were prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting (collectively referred to as the "Financial Statements"). Other information contained in these documents has also been prepared by management and is consistent with the data contained in the Financial Statements. All dollar amounts referred to in this MD&A are expressed in Canadian dollars except where indicated otherwise.

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION**

This MD&A includes "forward-looking statements", within the meaning of applicable securities legislation, which are based on the opinions and estimates of Management and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions, or other future performance suggested herein.

Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words suggesting future outcomes or statements regarding an outlook. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. These forward-looking statements include but are not limited to statements concerning:

- The Company's ability to identify, successfully negotiate and/or finance an acquisition of a new business opportunity
- The Company's success at completing future financings
- The Company's strategies and objectives
- General business and economic conditions
- The Company's ability to meet its financial obligations as they become due
- The positive cash flows and financial viability of new business opportunities

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- The Company's ability to manage growth with respect to a new business opportunity
- The Company's tax position, anticipated tax refunds and the tax rates applicable to the Company

Readers are cautioned that the preceding list of risks, uncertainties, assumptions and other factors are not exhaustive. Events or circumstances could cause actual results to differ materially from those estimated or projected and expressed in or implied by these forward-looking statements. Due to the risks, uncertainties and assumptions inherent in forward-looking statements, investors in securities of the Company should not place undue reliance on these forward-looking statements.

## **CORPORATE OVERVIEW AND OUTLOOK**

ECC2 was incorporated on January 15, 2018 under the laws of British Columbia and is classified as a Capital Pool Company ("CPC") as defined in the TSX Venture Exchange (the "Exchange" or "TSX-V") Policy 2.4. The head office is located at 1600 – 609 Granville Street, Vancouver, British Columbia V7Y 1C3, and the records and registered office is located at 2200 HSBC Building 885 West Georgia Street, British Columbia, V6C 3E8.

Since incorporation on January 15, 2018, the Company has had no active business operations. As a CPC, the Company's business objective is to identify and evaluate assets or businesses with a view to potential acquisition or participation by completing a Qualifying Transaction ("QT"), as defined in Exchange Policy 2.4 subject, in certain cases, to shareholder approval and acceptance by the TSX-V.

The Company completed its IPO on April 18, 2018 (the "Offering"), issuing 2,000,000 common shares in the capital of the Company at a price of \$0.10 per common share for gross proceeds of \$200,000 pursuant to the final prospectus dated March 27, 2018. Following closing of the Offering, a total of 5,650,000 common shares are issued and outstanding, of which 2,000,000 are currently held in escrow pursuant to the policies of the TSX-V. The net proceeds of the Offering, together with the proceeds from prior sales of common shares are being used by the Company to identify and evaluate assets or businesses for acquisition with a view to completing a QT.

On September 13, 2019, the Company entered into a definitive share purchase agreement (the "Definitive Agreement") pursuant to which it will acquire (the "Acquisition") of all the issued and outstanding membership interests of Long Island Brand Beverages LLC, a New York limited liability company ("LIBB") that is a wholly-owned subsidiary of Long Blockchain Corp., a US listed company ("Long Blockchain"), and all the issued and outstanding share capital of Long Island Beverages Corp., a private British Columbia corporation ("LIBC" and collectively with LIBB, "Long Island Beverages"). The Acquisition of Long Island Beverages will constitute a reverse takeover and ECC2's Qualifying Transaction under Policy 2.4 of the Exchange.

## **PROPOSED TRANSACTION**

On September 13, 2019, the Company entered into the Definitive Agreement pursuant to which it will complete the Acquisition. The Acquisition of Long Island Beverages will constitute a reverse takeover and

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ECC2's Qualifying Transaction under Policy 2.4 of the Exchange. Assuming completion of the Acquisition, it is anticipated that ECC2 will graduate to Tier 2 of the Exchange as a consumer products issuer.

Pursuant to the terms of the Acquisition, ECC2 will complete a forward share split of its common shares on a 1 for 1.5 basis and the security holders of LIBB and LIBC will be issued an aggregated 15,545,455 post-forward-split common shares of ECC2 and \$500,000 cash, as consideration for the Acquisition. An additional 2,700,000 currently issued post-forward-split common shares of the Company will be transferred within escrow to certain members of the new management team. The Company will also issue 890,000 post-forward-split common shares to certain finders in connection with the Acquisition. Certain of the consideration shares will be subject to escrow pursuant to the policies of the TSX-V, in addition to pooling restrictions that may be negotiated by the parties.

In advance of completion of the Acquisition, the Company advanced \$250,000 to LIBB pursuant to non-revolving secured loan facility. See Promissory Note section.

It is a condition of closing of the Acquisition that the Company complete a private placement transaction (the "Financing"), for minimum gross proceeds of \$2,000,000, at a price of \$0.50 per subscription receipt (the "Subscription Receipts"). The proceeds of the Financing will be held in escrow, pending the Company receiving all applicable regulatory approvals, and completing all matters and conditions relating to the Acquisition, including a 1.5:1 forward-split of the Company's common shares. Upon satisfaction of the escrow conditions, each Subscription Receipt will automatically convert, for no additional consideration, into units of the Company (the "Units") consisting of one post-forward-split common share of the Company (a "Common Share") and one common share purchase warrant (a "Warrant") entitling the holder to acquire one additional Common Share at an exercise price of \$1.00 per Warrant, for a period of 12 months from the date the escrow release conditions are satisfied. On completion of the Financing, the Company may pay a cash commission equal to 7.0% of the gross proceeds of the Financing and issue warrants to purchase such number of Units of the Company as is equal to 7.0% of the number of Subscription Receipts sold under the Financing. The warrants will be exercisable at an exercise price of \$0.50 per warrant for a period of 12 months from the date the escrow release conditions are satisfied.

Completion of the Acquisition and Financing are subject to a number of conditions, including forward split of the Company's existing share capital on a 1.5 to 1 basis and, Exchange acceptance. The Acquisition cannot close until the required approvals are obtained.

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**SUMMARY OF QUARTERLY RESULTS<sup>1</sup>**

	<b>3<sup>rd</sup> Quarter Ended September 30, 2019</b>	<b>2<sup>nd</sup> Quarter Ended June 30, 2019</b>	<b>1<sup>st</sup> Quarter Ended March 31, 2019</b>	<b>4<sup>th</sup> Quarter Ended December 31, 2018</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Income</b>	(6,301)	(6,687)	-	-
<b>Loss for the period</b>	(34,157)	(17,742)	(70,775)	(22,007)
<b>Comprehensive loss for the period</b>	(27,856)	(11,055)	(70,775)	(22,007)
<b>Loss per share<sup>2</sup></b>	(0.01)	(0.00)	(0.02)	(0.01)
	<b>3<sup>rd</sup> Quarter Ended September 30, 2018</b>	<b>2<sup>nd</sup> Quarter Ended June 30, 2018</b>	<b>For the period from incorporation on Jan 15, 2018 to March 31, 2018</b>	
	<b>\$</b>	<b>\$</b>	<b>\$</b>	
<b>Income</b>	-	-	-	
<b>Loss and comprehensive loss for the period</b>	(7,876)	(68,752)	(51,507)	
<b>Loss per share<sup>2</sup></b>	(7,876)	(0.02)	(0.03)	

<sup>1</sup> Unaudited financial information prepared in accordance IFRS

<sup>2</sup> The weighted average number of common shares outstanding used for the calculation of loss per share, excludes the 2,000,000 common shares held in escrow (see Share Capital section for further details of the escrow terms).

**RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019**

The following is an analysis of the Company's operating results for the three and nine months ended September 30, 2019 and includes a comparison against the comparable period in the previous year.

**Income** for the three and nine months ended September 30, 2019 amounted to \$6,301 and \$12,988, respectively (2018 - \$nil and \$nil). The Company currently earns interest income from the \$250,000 promissory note that it advanced to LIBB.

**Administration and bank charges** for the three and nine months ended September 30, 2019 amounted to \$5 and \$45, respectively (2018 - \$1 and \$876). These costs were incurred to maintain the Company's bank account.

**Professional fees** for the three and nine months ended September 30, 2019 amounted to \$28,377 and \$96,574, respectively (2018 - \$4,725 and \$49,099). In 2018 these were for legal and accounting fees incurred for the preparation of the Company's prospectus and IPO, as well as ongoing accounting fees for

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the preparation of quarterly reporting packages. In 2019, most of the expenditure was for legal fees incurred in connection with the proposed transaction described above.

**Rent expense** for the three and nine months ended September 30, 2019 amounted to \$3,150 and \$9,450, respectively (2018 - \$3,150 and \$5,775). This charge is for the administrative offices of the Company.

**Share based payments expense** for the three and nine months ended September 30, 2019 amounted to \$nil and \$nil, respectively (2018 - \$nil and \$45,421). The expense in the comparative period was a non-cash item that was calculated using the Black-Scholes option-pricing model on the 565,000 stock options granted to directors.

**Transfer agent and filing fees** for the three and nine months ended September 30, 2019 amounted to \$2,625 and \$16,605, respectively (2018 - \$Nil and \$16,464). The fees in 2019 included an annual TSX-V sustaining fee.

**Loss and comprehensive loss for the period**

As a result of the activities discussed above, the Company experienced a loss of \$34,157 and comprehensive loss of \$27,856 for the three months ended September 30, 2019 (2018 - \$7,876), and a loss of \$122,674 and comprehensive loss of \$109,686 for the nine months ended September 30, 2019, compared to a loss and comprehensive loss of \$117,635 for the period from incorporation on January 15, 2018 to September 30, 2018.

**SHARE CAPITAL**

**Authorized**

Unlimited number of common and preferred shares without par value.

**Issued and outstanding**

As at September 30, 2019 and the date of this MD&A, the Company had 5,650,000 common shares issued and outstanding.

On January 17, 2018, the Company issued 2,000,000 common shares of the Company at a price of \$0.05 per share for total proceeds of \$100,000. These common shares are held in escrow and 10% of the escrow shares will be released pro-rata to the shareholders upon issuance of notice of final acceptance of a QT by the TSX-V. The remainder will be released in six equal tranches of 15% every six months thereafter for a period of 36 months.

All of the escrow shares are considered contingently returnable until the Company completes a QT and accordingly, they are not considered to be outstanding shares for the purposes of the loss per share calculations.

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On January 18, 2018, the Company issued 1,650,000 common shares of the Company at a price of \$0.10 per share for total proceeds of \$165,000.

On April 18, 2018, the Company completed an IPO of 2,000,000 common shares at a price of \$0.10 per share for gross proceeds of \$200,000. The Company paid a cash commission of \$20,000, \$7,500 in legal fees, a corporate finance fee of \$10,500, other costs of \$4,436, and granted to the agent options to acquire 200,000 common shares at a price of \$0.10 per common share until April 18, 2020.

	Number of Shares	Amount
		\$
<b>Balance, January 15, 2018</b>	-	-
January 17, 2018 – share issuance	2,000,000	100,000
January 18, 2018 – share issuance	1,650,000	165,000
April 18, 2018 – share issuance	2,000,000	200,000
Share issuance costs	-	(54,129)
<b>Balance, December 31, 2018, September 30, 2019 and the date of this MD&amp;A</b>	<b>5,650,000</b>	<b>410,871</b>

**Stock options**

On January 22, 2018, the Company adopted a stock option plan (the “Stock Option Plan”) whereby it can grant incentive stock options to directors, officers, employees, and technical consultants of the Company. The maximum numbers of shares that may be reserved for issuance under the Stock Option Plan is limited to 10% of the issued and outstanding common shares of the Company at any time. The vesting period for all options is at the discretion of the Board of Directors. The exercise price will be set by the Board of Directors at the time of grant and cannot be less than the discounted market price of the Company’s common shares.

All options granted under the Stock Option Plan will expire not later than the date that is ten years from the date that such options are granted. All common shares acquired on exercise of stock options granted to directors and officers prior to the completion of a QT must be deposited in escrow until the final exchange bulletin relating to a QT is issued.

In April 2018, the Company granted stock options to directors of the Company to acquire up to an aggregate of 565,000 common shares. Each option vested immediately and is exercisable to acquire one common share at a price of \$0.10 until April 18, 2023. This resulted in share-based payment expense using the Black-Scholes option-pricing model of \$45,421. This amount was also recorded as reserves on the statement of financial position. The weighted average fair value of the stock options granted during the year was \$0.08 per option. The risk-free interest rate was 1.75%, with an expected life of 5 years, and an annualized volatility of 113%. The forfeiture rate and estimated annual dividend yield were both 0%.

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A summary of the Company's stock option activity is as follows:

	Number of Options	Weighted average Exercise Price
<b>Balance, as at January 15, 2018</b>	-	\$ -
Granted	565,000	\$0.10
<b>Balance, December 31, 2018, September 30, 2019 and the date of this MD&amp;A</b>	<b>565,000</b>	<b>\$0.10</b>

As at September 30, 2019 and the date of this MD&A, stock options outstanding and exercisable are as follows:

Grant Date	Number of options Outstanding and Exercisable	Exercise Price	Expiry date	Remaining contractual life (years)
April 18, 2018	565,000	\$0.10	April 18, 2023	3.55
<b>Total</b>	<b>565,000</b>	<b>\$0.10</b>		<b>3.55</b>

**Agent options**

As part of the IPO on April 18, 2018, the Company granted to the agent 200,000 common shares at a price of \$0.10 per common share until April 18, 2020. These options vested immediately. This resulted in share issuance costs using the Black-Scholes option-pricing model of \$11,693. This amount was recorded as part of the share issuance costs and netted against reserves on the statement of financial position. The weighted average fair value of these stock options granted to the agent was \$0.06 per option. The risk-free interest rate was 1.75%, with an expected life of 5 years, and an annualized volatility of 113%. The forfeiture rate and estimated annual dividend yield were both 0%.

A summary of the Company's agent option activity is as follows:

	Number of Agent Options	Weighted average Exercise Price
<b>Balance, as at January 15, 2018</b>	-	\$ -
Granted	200,000	0.10
<b>Balance, December 31, 2018, September 30, 2019 and the date of this MD&amp;A</b>	<b>200,000</b>	<b>\$0.10</b>

As at September 30, 2019 and the date of this MD&A, agent options outstanding and exercisable are as follows:

Grant Date	Number of agent options Outstanding and Exercisable	Exercise Price	Expiry date	Remaining contractual life (years)
April 18, 2018	200,000	\$0.10	April 18, 2020	0.55
<b>Total</b>	<b>200,000</b>	<b>\$0.10</b>		<b>0.55</b>

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**PROMISSORY NOTE**

Pursuant to a non-revolving secured loan facility dated January 31, 2019, as amended on June 15, 2019 and August 30, 2019 (the "Note"), during the period the Company advanced \$250,000 (the "Principal") to LIBB. In connection with the Note, LIBB granted a security interest in favour of ECC2, and Long Blockchain Corp. (parent company to LIBB), guaranteed the same.

The Note has a maturity date of November 30, 2019, and bears interest at the rate of 10% per annum, calculated and paid starting on the first day of November 2019 and each calendar month thereafter while any portion of the Note remains outstanding.

As of September 30, 2019, \$12,988 in interest has been accrued on this Note.

**LIQUIDITY AND CAPITAL RESOURCES**

Capital is comprised of the Company's shareholders' equity and any debt that it may issue. The Company's objectives when managing capital are to maintain financial strength and to protect its ability to meet its ongoing liabilities, to continue as a going concern, to maintain creditworthiness and to maximize returns for shareholders over the long term. Protecting the ability to pay current and future liabilities includes maintaining capital above minimum regulatory levels, current financial strength rating requirements and internally determined capital guidelines and calculated risk management levels.

The proceeds raised from the issuance of common shares may only be used to identify and evaluate assets or businesses for future investment, with the exception that no more than the lesser of 30% of the gross proceeds from the issuance of common shares or \$210,000 may be used to cover prescribed costs of issuing the common shares or administrative and general expenses of the Company. These restrictions apply until completion of a QT by the Company as defined under the Exchange Policy 2.4.

A summary of the Company's cash flows during the period ended September 30, 2019 and during the period from incorporation on January 15, 2018 to September 30, 2018 is as follows:

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	<b>For the nine months ended September 30, 2019</b>	<b>For the period from incorporation on January 15, 2018 to September 30, 2018</b>
Cash flows used in operating activities	\$ (64,533)	\$ (66,964)
Cash flows used in investing activities	(250,000)	-
Cash flows provided by financing activities	-	422,564
Increase (decrease) in cash for the period	(314,533)	355,600
Cash, beginning of the period	342,473	-
Cash, end of the period	\$ 27,940	\$ 355,600

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**Cash flows used in operating activities** were \$64,533 during the nine months ended September 30, 2019 compared to \$66,964 during the period from incorporation on January 15, 2018 to September 30, 2018. The cash was used to maintain the administrative and reporting needs of the Company.

**Cash flows used in investing activities** were \$250,000 during the nine months ended September 30, 2019, compared to \$nil during the period from incorporation on January 15, 2018 to September 30, 2018. The cash was used to fund the \$250,000 promissory note to LIBB.

**Cash flows provided by financing activities** were \$nil during the nine months ended September 30, 2019 compared to \$422,564 during the period from incorporation on January 15, 2018 to September 30, 2018. During the prior period, net proceeds of \$422,564 were provided through the issuance of common shares.

As a result of the above activities, at September 30, 2019, the Company has \$27,940 of cash to settle current liabilities of \$82,771. As such, the Company has insufficient cash to fund corporate overhead costs and the repayment of the Company's debt obligations for the next year and is currently exposed to liquidity risk. The ability of the Company to discharge these liabilities is contingent on the repayment of the outstanding promissory note and/or obtaining further equity financing or alternate sources of financing.

Until the Company has either acquired or developed a business that generates revenues, the Company will remain dependent upon the financial support of its shareholders and debt holders. Therefore, in order to fund future operating costs and/or settle its obligations with debt holders, the Company may seek to raise debt financing, or issue shares of its common stock to settle any debt, or issue shares of its common stock to raise capital. There is no assurance that the Company will be able to issue shares or raise debt financing. Should the Company issue common shares to settle its debt or raise capital it would significantly dilute the existing shareholders. If the Company is unable to continue to finance itself through these means, it is possible that the Company will be unable to continue as a going concern.

The financial statements have been prepared in accordance with IFRS applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. The accompanying financial statements do not reflect adjustments that may be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate, adjustments may be necessary to the carrying amounts and/or classification of assets and/or liabilities and the reported expenses in these financial statements. Such adjustments could be material.

## **RELATED PARTY TRANSACTIONS**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

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The Company has identified its directors and senior officers as its key management personnel and the compensation costs for key management personnel and companies related to them are recorded at their exchange amounts as agreed upon by transacting parties.

As of September 30, 2019, \$Nil (December 31, 2018 - \$Nil) was due to related parties. During the period ended September 30, 2019, \$Nil was recorded as share-based payment for key management personnel (2018 - \$45,421).

## **RISKS AND UNCERTAINTIES**

### **Strategic Risk**

At present, the Company has very limited sources of funding from which to repay its existing obligations and fund on-going operating costs. If the Company is unable to obtain adequate additional financing, management might be required to curtail the Company's operations. If future financing is unavailable, the Company may not be able to meet its ongoing obligations, in which case its ability to continue as a going concern may be adversely affected.

There is also no guarantee that the Company will be able to complete the acquisition of or participation in a new business opportunity. If an acquisition of or the participation in corporations, properties, assets or businesses is identified, the Company may find that even if the terms of an acquisition or participation are economic, it may not be able to finance such acquisition or participation and additional funds will be required to enable the Company to pursue such an initiative. There is no guarantee that additional financing will be available or that it will be available on terms acceptable to management of the Company. The Company will be competing with other companies, many of which will have far greater resources and experience than the Company. No assurance can be given that the Company will be successful in raising the funds required for an acquisition.

### **Lack of Dividend Policy**

The Company does not presently intend to pay cash dividends in the foreseeable future, as any earnings are expected to be retained for use in developing and expanding its business. However, the actual amount of dividends received from the Company will remain subject to the discretion of the Company's Board of Directors and will depend on results of operations, cash requirements and future prospects of the Company and other factors.

### **Possible Dilution to Present and Prospective Shareholders**

The Company's plan of operation, in part, contemplates the accomplishment of business negotiations by the issuance of cash, securities of the Company, or a combination of the two, and possibly, incurring debt. Any transaction involving the issuance of previously authorized but unissued common shares would result in dilution, possibly substantial, to present and prospective holders of common shares.

### **Dependence of Key Personnel**

The Company strongly depends on the business and technical expertise of its management and key personnel. There is little possibility that this dependence will decrease in the near term. As the Company's operations expand, additional general management resources will be required, especially since the Company encounters risks that are inherent in doing business in several countries.

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## **FINANCIAL INSTRUMENTS**

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes. The type of risk exposure and the way in which such exposure is managed is provided as follows:

### **Market Risk**

Market risk is the risk that the fair value or future cash flows from a financial instrument will fluctuate because of changes in market prices or prevailing conditions. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk and are disclosed as follows:

#### **(i) Currency risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company holds no financial instruments that are denominated in a currency other than Canadian dollars. As at September 30, 2019, the Company is not exposed to currency risk.

#### **(ii) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in market risk. The Company's sensitivity to interest rates relative to its cash balances is currently immaterial. The Company also has no long-term debt with variable interest rates, so it has no negative exposure to changes in the market interest rate.

#### **(iii) Price rate risk**

The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Management closely monitors individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company. Given the Company's limited market exposure at this time it has assessed there to be a low level of price rate risk.

### **Credit Risk**

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and promissory note. The Company limits the exposure to credit risk by only investing its cash with high-credit quality financial institutions. Management believes that the credit risk

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related to its cash is negligible. The promissory note is guaranteed by a third party and management believes that the risk of default on the note is minimal.

#### **Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. At September 30, 2019, the Company's only source of revenue is the accrued interest income on the promissory note. The Company has a cash balance of \$27,940 to settle current liabilities of \$82,771. As such, the Company has insufficient cash to fund corporate overhead costs and the repayment of the Company's debt obligations for the next year and is currently exposed to liquidity risk. The ability of the Company to discharge these liabilities is contingent on the repayment of the outstanding promissory note and/or obtaining further equity financing or alternate sources of financing.

#### **Fair Value Measurements**

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, and
- Level 3 – Inputs that are not based on observable market data. The fair value of cash is determined based on Level 1 inputs, which consist of quoted prices in active markets for identical assets.

As at September 30, 2019 and December 31, 2018, the Company's financial instruments consist of cash, a promissory note, accounts payable and accrued liabilities. Cash and the promissory note are classified as amortized cost. Accounts payable and accrued liabilities are classified as amortized cost. The fair values of these financial instruments approximate their carrying values because of their short-term nature and/or the existence of market related interest rates on the instruments.

#### **ADOPTION OF NEW ACCOUNTING STANDARDS**

The accounting policies applied in the preparation of the condensed interim financial statements are consistent with those applied and disclosed in the Company's audited financial statements for the year ended December 31, 2018, except for the adoption, on January 1, 2019, of IFRS 16, *Leases* ("IFRS 16"), and IFRIC 23, *Uncertainty over Income Tax Treatments* ("IFRIC 23"), which have an initial application as at this date.

#### **IFRS 16**

New standard that replaces IAS 17 and sets out the principles for the recognition, measurement, presentation and disclosures of leases; effective for annual periods beginning on or after January 1, 2019.

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The adoption of this standard did not have an impact on its financial statements as the Company currently has no leases.

**IFRIC 23**

New standard to clarify the accounting for uncertainties in income taxes. The interpretation provides guidance and clarifies the application of the recognition and measurement criteria in IAS 12 "Income Taxes" when there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning on January 1, 2019. The adoption of this standard did not have an impact on its financial statements.

**OFF-BALANCE SHEET ARRANGEMENTS**

The Company currently has no off-balance sheet arrangements.

**ADDITIONAL INFORMATION**

Additional information relating the Company is available at [www.sedar.com](http://www.sedar.com).