

TRENCHANT CAPITAL CORP.
Consolidated Financial Statements
Nine months Ended December 31, 2019

Expressed in Canadian Dollar
(Unaudited-Prepared by Management)

Trenchant Capital Corp.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	Notes	December 31, 2019	March 31, 2019
ASSETS		(Unaudited)	(Audited)
Current assets			
Cash		\$ 62,910	\$ 105,481
Accounts receivable		18,700	4,350
Prepays		22,898	57,898
Interest receivable	4	757,623	549,861
		862,131	717,590
Long-term assets			
Property and Equipment, net	3	121,382	34,395
PIK interest receivable	4	516,163	362,586
Loans receivable	4	21,223,000	17,234,000
TOTAL ASSETS		\$ 22,722,676	\$ 18,348,571
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	5,7	\$ 540,082	\$ 478,902
Dividends payable	8	497,250	382,000
Lease liability, current portion	3	61,106	-
		1,098,438	860,902
Long-term Liabilities			
Lease liability	3	30,461	-
Preferred share liability		43,650	188,833
Debentures	7	19,324,300	15,085,969
TOTAL LIABILITIES		20,496,849	16,135,704
SHAREHOLDERS' EQUITY			
Share capital	8	4,170,018	4,157,518
Preferred shares	8	2,180,176	2,192,676
Share-based payment reserve	8	484,511	409,597
Deficit		(4,608,878)	(4,546,924)
TOTAL EQUITY		2,225,827	2,212,867
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 22,722,676	\$ 18,348,571

Going concern (Note 1)

On behalf of the board:

"Eric Boehnke"
Eric Boehnke, Director

"Tom English"
Tom English, Director

See accompanying notes to the consolidated financial statements

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Trenchant Capital Corp.
Consolidated Statements of Comprehensive Loss
(Unaudited, expressed in Canadian Dollars)

	Notes	Three month periods ended		Nine month periods ended	
		December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Revenues					
Interest income	4	\$ 595,442	\$ 482,137	\$ 1,688,322	\$1,411,618
Expenses					
Accretion		56,698	33,668	142,251	102,971
Business development		9,873	22,316	52,993	66,800
Consulting		2,573	1,313	4,673	20,940
Depreciation	3	22,872	-	47,376	-
General and administrative		(10,447)	25,266	6,182	53,071
Interest	7	425,132	332,275	1,214,669	999,564
Professional fees	6	30,871	23,799	143,299	61,225
Share-based payment		25,062	-	74,914	-
Transfer agent and filing fees		1,822	3,385	63,919	32,126
		(564,456)	(442,022)	(1,750,276)	(1,336,697)
Net and comprehensive income (loss) for the period		\$ 30,986	\$ 40,115	\$ (61,954)	\$ 74,921
Income (loss) per share – basic and diluted		\$ 0.00	\$ 0.00	\$ (0.01)	\$ 0.01

Trenchant Capital Corp.
Consolidated Statement of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Share capital						
	Number of Common shares	Number of Preferred shares	Common shares	Preferred shares	Share-based payment reserve	Deficit	Total
Balance at March 31, 2018	11,535,885	6,750,000	\$ 4,111,518	\$ 2,192,676	\$ 343,158	\$ (4,499,703)	\$ 2,147,649
Issue of common shares (Note 8)	102,222		46,000	-	-	-	46,000
Comprehensive loss	-	-	-	-	-	74,921	74,921
Balance at December 31, 2018	11,638,107	6,750,000	\$ 4,157,518	\$ 2,192,676	\$ 343,158	\$ (4,424,782)	\$ 2,268,570
Balance at March 31, 2019	11,638,107	6,750,000	\$ 4,157,518	\$ 2,192,676	\$ 409,597	\$ (4,546,924)	\$ 2,212,867
Preferred share conversion(Note 8)	31,250	(31,250)	12,500	(12,500)	-	-	-
Share-based payments	-	-	-	-	74,914	-	74,914
Comprehensive loss	-	-	-	-	-	(61,954)	(61,954)
Balance at December 31, 2019	11,669,357	6,718,750	\$ 4,170,018	\$ 2,180,176	\$ 484,511	\$ (4,608,878)	\$ 2,225,827

See accompanying notes to the consolidated financial statements

Trenchant Capital Corp.
Consolidated Statements of Cash Flows
(Unaudited, expressed in Canadian Dollars)

	Nine months ended	
	December 31, 2019	December 31, 2018
Operating activities		
Net loss	\$ (61,954)	\$ 74,921
Adjustments for non-cash items:		
Accretion expense	142,251	102,971
Accrued interest	26,832	37,623
Depreciation	47,376	-
Share-based-payments	74,914	-
Changes in non-cash working capital items:		
Receivables	(14,350)	-
Prepaid expenses	35,000	(5,707)
Interest receivable	(207,762)	(435,777)
Accounts payables and accrued liabilities	11,180	(17,802)
Net cash flows provided by (used) in operating activities	53,487	(243,771)
Investing activities		
Furniture and fixtures	-	(37,846)
Advance of loans	(4,189,000)	(2,335,000)
PIK receivable	(153,577)	-
Net cash flows used in investing activities	(4,342,577)	(2,372,846)
Financing activities		
Repayment of lease obligation	(49,561)	-
Repayment of loan receivable	200,000	-
Issuance of debentures	4,189,000	2,286,212
Debenture financing costs	(92,920)	-
Net cash flows from financing activities	4,246,519	2,286,212
Decrease in cash	(42,571)	(330,405)
Cash, beginning	105,481	489,483
Cash, ending	\$ 62,910	\$ 159,078
Non-cash activities		
Shares issued for dividends payable	\$ -	\$ 46,000

See accompanying notes to the consolidated financial statements

1. Nature and continuance of operations

Trenchant Capital Corp. (the "Company") was incorporated under the British Columbia Business Corporations Act on December 17, 2009. The Company's shares are listed on the TSX Venture Exchange ("TSXV").

The Company's head office is located at Suite 1790, 1066 West Hastings Street, Vancouver, BC, V6E 2X1. The Company has three subsidiaries, 0960128 B.C. Ltd. and 1141864 B.C. Ltd. and TCC Management Inc.

These financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. The Company has incurred losses since its inception and had an accumulated deficit of \$4,608,878 at December 31, 2019, which has been funded primarily by issuance of securities debentures and loans from related parties. This indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

The Company was formed as a Capital Pool Company on the TSXV. In May 2011, the Company completed its qualifying transaction as a resource issuer and was engaged in the exploration and development of natural resource properties.

In May 2016, the Company announced that it was pursuing a change of business to become an Investment Issuer on the TSXV (the "Change of Business"). In connection with the Change of Business the Company changed its name to Trenchant Capital Corp. on May 16, 2017 and commenced trading under the symbol "TCC.H". Approval for the Change of Business was obtained from the TSXV on May 26, 2017.

2. Significant accounting policies and basis of preparation

The unaudited consolidated interim financial statements were authorized for issue on March 2, 2020 by the directors of the Company.

Statement of compliance with International Financial Reporting Standards

The unaudited interim consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. The accounting policies applied in these financial statements are consistent with those used in the Company's audited financial statements for the year ended March 31, 2019. There have been no changes from the accounting policies applied in the March 31, 2019 financial statements other than the adoption of IFRS 16 on April 1, 2019 (Note 2). The preparation of interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the related amounts of assets and liabilities, revenues and expenses. In management's opinion, all adjustments considered necessary for fair presentation have been included in these unaudited interim consolidated financial statements. Interim results are not necessarily indicative of the results expected for the financial year. Annual results may differ from interim results. The significant judgments made by management applied in the preparation of these unaudited interim consolidated financial statements are consistent with those applied and disclosed in the Company's audited consolidated financial statements for the year ended March 31, 2019. For a description of the critical accounting estimates and assumptions, please refer to the Company's audited consolidated financial statements for the year ended March 31, 2019.

2. Significant accounting policies and basis of preparation (cont'd)

Equipment

Property and equipment are carried at cost, less accumulated depreciation and accumulated impairment losses. The cost of an item of property and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the consolidated statements of comprehensive loss. Where an item of property and equipment comprises major components with different useful lives, the components are accounted for as separate items of property and equipment. Expenditures incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized. As at March 31, 2019, equipment consists of furniture.

The Company provides for depreciation of its furniture at the following method:

Furniture and fixtures straight line method over 5 years

The depreciation expense for each period is recognized in profit or loss.

Basis of preparation

The consolidated financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. The consolidated financial statements are presented in Canadian dollars unless otherwise noted.

Consolidation

The consolidated financial statements include the accounts of the Company and its controlled entity. Details of the controlled entity is as follows:

	Country of incorporation	Percentage owned*	
		December 31, 2019	March 31, 2019
0960128 B.C. Ltd.	Canada	100%	100%
1141864 B.C. Ltd.	Canada	100%	100%
TCC Management Inc	Canada	100%	-

*Percentage of voting power is in proportion to ownership.

During the period ended December 31, 2019, the Company's subsidiary, TCC Management Inc, was inactive.

2. Significant accounting policies and basis of preparation (cont'd)

Foreign currency translation

The functional currency of each entity is measured using the currency of the primary economic environment in which that entity operates. The financial statements are presented in Canadian dollars which is the Company and its subsidiaries' functional and presentation currency.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of comprehensive loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive loss in the statement of comprehensive loss to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive loss. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

Changes in Accounting Policy – Leases

The accounting policies applied by the Company in these interim consolidated financial statements are the same as those applied by the Company in its consolidated financial statements as at and for the year ended March 31, 2019 with the exception of the following:

(a) Changes in Accounting Policies – Leases

Effective April 1, 2019, the Company adopted IFRS 16, Leases, which specifies how to recognize, measure, present and disclose leases. The standard introduces a single lessee accounting model and requires a lessee to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Company's accounting policy under IFRS 16 is as follows:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This policy is applied to contracts entered into, or changed, on or after April 1, 2019. The Company recognizes a right-of-use asset and a lease liability at the initial application date. The right-of-use asset is measured based on the present value of the remaining lease payments at the initial application date, plus any initial direct costs incurred, and estimate of costs to dismantle and remove or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use assets are subsequently depreciated from the initial application date using the straight-line method. The lease term includes consideration of an option to renew or to terminate if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

2. Significant accounting policies and basis of preparation (cont'd)

The lease liability is initially measured at the present value of the lease payments that are not paid at the initial application date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising mainly from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, renewal or termination option due to a significant event or change in circumstances.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Under IAS 17, Leases ("IAS 17"), the Company's accounting policy was as follows:

The determination of whether an arrangement was (or contained) a lease was based on the substance of the arrangement at the inception of the lease. The arrangement was, or contained, a lease if fulfilment of the arrangement was dependent on the use of a specific asset and the arrangement conveyed a right to use the asset, even if that asset was not explicitly specified in an arrangement.

A lease was classified at the inception date as a finance lease or an operating lease. A lease that transferred substantially all the risks and rewards incidental to ownership to the Company was classified as a finance lease.

Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges were recognized in net finance expenses (income) in net loss. A leased asset was depreciated over the term of the lease.

An operating lease was a lease other than a finance lease. Operating lease payments were recognized in net loss on a straight-line basis over the lease term. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.

(b) Impact of transition to IFRS 16– Leases

Effective April 1, 2019 the Company adopted IFRS 16 using the modified prospective approach. Accordingly, comparative figures as at and for the year ended March 31, 2019 and the nine-month period ended December 31, 2018 have not been restated and continue to be reported under IAS 17.

On initial application for leases previously classified as operating leases under IAS 17, the Company has elected to record the right-of-use asset based on the corresponding lease liability. For recording the new right-of-use asset under IFRS 16, the Company discounted future lease payments using its incremental borrowing rate as at April 1, 2019 of 8% per annum.

The recognized right-of-use asset relates to the Company's lease agreements which is included under property and equipment on the interim consolidated statement of financial position as follow:

Trenchant Capital Corp.
Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)
For the nine months ended December 31, 2019 and 2018

2. Significant accounting policies and basis of preparation (cont'd)

	April 1, 2019	
Right-of-use asset, net book value (Note 3)	\$	134,363
Lease Liability (Note 3)	\$	134,363

3. Property and Equipment

	Equipment	Right of use (Note 2)	Total
Cost	\$	\$	\$
March 31, 2019	37,846	-	37,846
Additions (Note 2)	-	134,363	134,363
December 31, 2019	37,846	134,363	172,209
Amortization			
March 31, 2019	(3,451)	-	(3,451)
Charge for the period	(5,677)	(41,699)	(47,376)
December 31, 2019	(9,128)	(41,699)	(50,827)
Net book value			
March 31, 2019	34,395	-	34,395
December 31, 2019	28,718	92,664	121,382

The Company entered into a lease agreement. On December 31, 2019, the balance of the lease liability is as follows:

	Lease liability
	\$
Balance, April 1, 2019	-
Additions (Note 2)	134,363
Interest	6,765
Payments	(49,561)
Balance, December 31, 2019	91,567
	\$
Short term	61,106
Long term	30,461
Balance, December 31, 2019	91,567

Trenchant Capital Corp.
Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)
For the nine months ended December 31, 2019 and 2018

4. Loans

	December 31, 2019	March 31, 2019
Waiward loans		
May 18, 2017	\$ 5,522,000	\$ 5,522,000
June 26, 2017	1,488,000	1,488,000
July 19, 2017	730,000	730,000
	<u>7,740,000</u>	<u>7,740,000</u>
ABO loans		
March 2018	5,659,000	5,659,000
March 2018	1,300,000	1,500,000
May 2018	2,335,000	2,335,000
May 2019	2,428,000	-
June 2019	1,761,000	-
	<u>13,483,000</u>	<u>9,494,000</u>
	<u>\$ 21,223,000</u>	<u>\$ 17,234,000</u>

The Company has entered into a loan agreement (the "Loan Agreement") dated March 2, 2017 (which replaces the loan agreement dated October 28, 2016) with Waiward Investments Limited Partnership (the "Borrower"), a limited partnership related to the Hillcore Group Ltd. ("Hillcore"), pursuant to which a wholly owned subsidiary of the Company (the "Lender") has agreed to loan a minimum of \$5,000,000 and a maximum of \$20,000,000 (or \$23,000,000 in the event that the Over-Allotment Option is exercised in full) (the "Waiward Loan") to the Borrower, secured by the Borrower's indirect equity interest in Waiward Steel Limited Partnership ("Waiward Steel"), a Canadian steel fabricator and erector.

The Waiward loans were made by the Company's subsidiary 0960128 B.C. Ltd., and bears interest at the rate of 12.5% per annum, with 10% payable quarterly in cash and 2.5% added quarterly to the principal balance and payable at maturity on March 31, 2022. Interest earned in the nine months ended December 31, 2019 was \$767,886 (2018 - \$748,986), of which \$206,827(2018 - \$201,737) was receivable at December 31, 2019 and \$153,577 (2018 - \$312,915) was interest accrued for payment in kind ("PIK"). The loan is secured by the Borrower's indirect equity interest in Waiward Steel.

In December 2017 the Company's subsidiary 1141864 B.C. Ltd. agreed to lend \$5,659,000 to ABO Investments Limited Partnership ("ABO"). The loan bears interest at the rate of 10.0% per annum, payable quarterly in cash until maturity on January 27, 2023 (the "ABO Loan"). On May 17, 2018, the Company closed the second tranche of the Omni Debentures for which gross proceeds of \$2,335,000 were raised through the issuance of 2,335 Omni Debentures. On May 13, 2019, the Company closed the third tranche of the Omni Debentures for which gross proceeds of \$2,428,000 were raised through the issuance of 2,428 Omni Debentures. On June 28, 2019, the Company closed the fourth tranche of the Omni Debentures for which gross proceeds of \$1,761,000 were raised through the issuance of 1,761 Omni Debentures (Note 7).

Interest earned in the nine months ended December 31, 2019 was \$830,872(2018 - \$572,221), of which \$307,078(2018 - \$201,493) was receivable at December 31, 2019. The loan is secured by the borrower's indirect equity interest in Omni Health Investments Inc.

4 Loans (cont'd)

On June 29, 2017, the Company advanced a refundable deposit of \$1,500,000 to 10164950 Canada Ltd., a company controlled by Hillcore, as an advance on a second investment transaction with Hillcore. If the advance is not repaid, or the parties have not completed a second investment by December 31, 2017, the advance shall automatically convert into an additional loan by the Company to Waiward Steel. In December 2017 the Company agreed to loan the advance to ABO in a sidecar loan on the same terms as, and be subordinated to, the ABO Loan. The loan bears interest at the rate of 8.0% per annum, payable annually in cash until maturity on January 27, 2023. ABO repaid \$200,000 of the loan in June 2019. Interest earned in the nine months ended December 31, 2019 was \$89,564 (2018 - \$90,411), which was receivable at December 31, 2019.

5. Accounts payable and accrued liabilities

	December 31, 2019	March 31, 2019
Accounts payable	\$ 540,082	\$ 458,402
Accrued liabilities	-	20,500
	\$ 540,082	\$ 478,902

6. Related party transactions

Related party balances:

The following amounts are due to related parties and included in accounts payable (Note 5):

	December 31, 2019	March 31, 2019
CFO	7,875	1,575

These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

Key management personnel compensation

	Nine months ended	
	December 31, 2019	December 31, 2018
CFO – Professional fees	\$ 23,625	4,725

7. Debentures

	December 31, 2019	March 31, 2019
Balance, beginning	\$ 15,085,969	\$ 12,704,624
Proceeds from issuance of debentures	4,189,000	2,335,000
Deferral of financing costs	(92,920)	(109,343)
Interest expense	1,187,837	1,312,450
Interest paid or payable	(1,187,837)	(1,312,450)
Accretion of financing costs	142,251	155,688
	\$ 19,324,300	\$ 15,085,969

7. Debentures (cont'd)

The Debenture Offering

On March 7, 2017, the Company filed and obtained a receipt for a preliminary prospectus with security regulatory authorities for a proposed public offering of a minimum of 5,000 and a maximum of 20,000 secured convertible debentures (the "Debentures") priced at \$1,000 per Debenture (the "Debenture Offering Price"), for gross proceeds of a minimum of \$5,000,000 and a maximum of \$20,000,000 (the "Debenture Offering"). The Debenture Offering closed in three tranches for aggregate gross proceeds of \$7,740,000. The first tranche, pursuant to which gross proceeds of \$5,522,000 were raised through the issuance of 5,522 Debentures, closed on May 18, 2017. The second tranche, pursuant to which gross proceeds of \$1,488,000 were raised through the issuance of 1,488 Debentures, closed on June 26, 2017. The third tranche, pursuant to which gross proceeds of \$730,000 were raised through the issuance of 730 Debentures, closed on July 19, 2017. In connection with the Debenture Offering, the Company paid the agents aggregate cash commissions equal to 6.5% of the gross proceeds raised under the Debenture Offering and were reimbursed for their reasonable expenses.

During the nine months ended December 31, 2019, the Company has recognized as accretion expense of \$88,981 (2018 - \$79,410) related to this Debenture Offering. During the nine months ended December 31, 2019, the interest expense was \$522,450, (2018 - \$522,450) of which \$174,150 (2018 - \$174,150) is included in accounts payable (Note 5).

The Debentures will mature on March 31, 2022 and the outstanding principal of the Debentures will bear interest (the "Debenture Interest") at the rate of 9.0% per annum, payable quarterly in cash. The terms of the Debentures are set out in a trust indenture entered into between the Company and Computershare Trust Company of Canada ("Computershare").

Commencing on May 18, 2018, the outstanding principal amount of the Debentures may be converted, at the option of the holder, into common shares of the Company at a conversion price equal to the greater of: (i) 95% of the volume weighted average trading price of the common shares for the 30 trading day period ending three business days before the conversion date, and (ii) \$1.00 per common share, provided that, unless the conversion is being effected in connection with a redemption by the Company, no more than 25% of the aggregate principal amount of Debentures held by a holder may be converted in any 180-day period.

The Company may prepay the outstanding principal of the Debentures, and accrued but unpaid interest thereon, in cash, at any time after May 18, 2019, being two years after the closing of the first tranche of the Debenture Offering, by paying the Debenture holders 105% of the outstanding principal amount of the Debentures in year three, 103% of the outstanding principal amount of the Debentures in year four, and 101% of the outstanding principal amount of the Debentures in year five, plus any accrued but unpaid interest thereon.

The Company pledged all of the outstanding shares of 0960128 B.C. Ltd. to Computershare, on behalf of the holders of the Debentures, as security for the Company's outstanding obligations under the Debentures. The holders of Debentures have no recourse to the Company other than with respect to such shares.

Effective on October 26, 2017, the Debentures commenced trading on the TSXV under the symbol "TCC.DB".

7. Debentures (cont'd)

The Omni Debentures

In December 2017 the Company filed and obtained a receipt for a preliminary prospectus with security regulatory authorities for a proposed public offering of a minimum of 10,000 and a maximum of 20,000 8% secured convertible debentures (the "Omni Debentures") priced at \$1,000 per Debenture, for gross proceeds of a minimum of \$10,000,000 and a maximum of \$20,000,000 (or \$23,000,000 in the event that the Over-Allotment Option is exercised in full) (the "Omni Debenture Offering"). The net proceeds of the Omni Debenture Offering will be used to fund the Omni Loan, as described below. On March 23, 2018, the Company closed the first tranche of the Omni Debentures for which gross proceeds of \$5,659,000 were raised through the issuance of 5,659 Omni Debentures.

On May 17, 2018, the Company closed the second tranche of the Omni Debentures for which gross proceeds of \$2,335,000 were raised through the issuance of 2,335 Omni Debentures. On May 13, 2019, the Company closed the third tranche of the Omni Debentures for which gross proceeds of \$2,428,000 were raised through the issuance of 2,428 Omni Debentures. On June 28, 2019, the Company closed the fourth tranche of the Omni Debentures for which gross proceeds of \$1,761,000 were raised through the issuance of 1,761 Omni Debentures.

During the nine months ended December 31, 2019, the Company incurred financing costs of \$92,920 (2018 - \$48,788) related to these Omni Debentures. During the nine months ended December 31, 2019, interest expense was \$665,387 (2018 - \$439,491), of which \$243,660 (2018 - \$143,401) is included in accounts payable (Note 5).

The Omni Debenture Offering is being made on a best efforts basis, through a syndicate of agents led by Canaccord Capital Corp. and Industrial Alliance Securities Inc. (collectively, the "Agents"). The Omni Debentures issued in the Omni Debenture Offering will have a maturity date of January 27, 2023 and bear interest at the rate of 8.0% per annum, payable quarterly in cash. Commencing two years from closing, the outstanding principal amount of the Omni Debentures may be converted, at the option of the holder, into common shares of the Company at a conversion price equal to the greater of: (i) 95% of the volume weighted average trading price of the common shares for the 30 trading day period ending three business days before the conversion date, and (ii) \$1.25 per common share, provided that, unless the conversion is being effected in connection with a redemption by the Company, no more than 25% of the aggregate principal amount of Debentures held by a holder may be converted in any 180-day period.

The Company may prepay the outstanding principal of the Omni Debentures, and accrued but unpaid interest thereon, in cash, at any time after two years from the closing of the first tranche of the Omni Debenture Offering, by paying the Omni Debenture holders 105% of the outstanding principal amount of the Omni Debentures in year three, 103% of the outstanding principal amount of the Omni Debentures in year four, and 101% of the outstanding principal amount of the Omni Debentures in year five, plus any accrued but unpaid interest thereon.

The Company has agreed to pledge all of the outstanding shares of 1141864 B.C. Ltd. as security for the Company's outstanding obligations under the Omni Debentures. The holders of Omni Debentures will have no recourse to the Company other than with respect to such shares.

8. Share capital

Authorized share capital

Unlimited number of common shares without par value and an unlimited number of preferred shares without par value.

Issued share capital

At December 31, 2019 there were 11,669,357 (2018 - 11,638,107) issued and fully paid common shares.

During the nine months end December 31, 2019, the Company issued 31,250 Common shares at \$0.40/share of the conversion of 31,250 preferred shares.

During the nine months ended December 31, 2018, the Company issued 102,222 Common shares at \$0.45 as settlement of \$46,000 of the dividend payable.

Preferred shares

On May 18, 2017, the Company closed a private placement of non-voting convertible preferred shares, pursuant to which it raised gross proceeds of \$2,700,000 through the issuance of 6,750,000 preferred shares at a price of \$0.40 per share (the "Preferred Share Offering", and together with the Debenture Offering, the "Offerings"). No commissions or finder's fees were paid in connection with the Preferred Share Offering.

The preferred shares are entitled to receive annual non-cumulative dividends at a fixed rate of 8% per annum. Holders of preferred shares may, commencing on May 18, 2018, convert their preferred shares into common shares on a one for one basis, subject to a semi-annual maximum conversion limit of such number of common shares as is equal to 25% of a particular holder's preferred shares. The preferred shares will automatically convert into common shares on a one for one basis on May 18, 2020.

Holders of Preferred Shares are not entitled to receive notice of, attend, or vote at, any general meeting of the shareholders of the Company. The preferred shares are not, and are not expected to be, listed for trading on the TSXV or on any other stock exchange or quotation system.

The fair value of the liability component of the preferred shares was calculated using a market interest rate, which the Company determined to be 8.5%. The residual amount, representing the equity component of the preferred shares, is included in shareholders equity. As at December 31, 2019, there are dividends payable on the preferred shares of \$497,250 (March 31, 2019 - \$382,000).

Basic and diluted earnings (loss) per share

The calculation of basic earnings (loss) per share for the nine months ended December 31, 2019 was based on the earnings (loss) attributable to common shareholders of \$(61,954) (2018 - \$74,921) and the weighted average number of common shares outstanding of 11,653,174 (2018 - 11,604,280).

8. Share capital (cont'd)

Stock options

On March 3, 2010, the directors of the Company consented to adopt a Company Share Option Plan (the "Plan"). The shareholders of the Company approved the Plan on September 8, 2011. The Plan provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the common shares outstanding at the time of the granting of options. Such options may be exercisable for a period of up to 10 years from the date of grant. In connection with the foregoing, the number of common shares reserved for issuance to any individual director or officer will not exceed 5% of the issued and outstanding common shares and the number of common shares reserved for issuance to all technical consultants will not exceed 2% of the issued and outstanding common shares. Options may be exercised no later than 90 days following cessation of the optionee's position with the Company, provided that if the cessation of office, directorship, or consulting arrangement was by reason of death, the option may be exercised within a maximum period of one year after such death, subject to the expiry date of such option.

On March 29, 2019, the Company granted 1,160,000 options to purchase common shares to directors and officers of the Company, at \$0.25 per common share. Each option is exercisable into one common share at an exercise price of \$0.25 until March 29, 2022. The options vest annually over three years, with 1/3 of the options vesting each year commencing on the date of grant, being March 29, 2019. The closing price of the Common Shares on March 29, 2019 was \$0.29. The fair value of the options granted was determined to be \$199,318 using the following assumptions: Risk-free rate of 1.43%; Expected life of 3 years, expected volatility of 100% and dividend yield of nil. For nine months ended December 31, 2019, the Company recognized share-based payment of \$74,914 (2018 -\$nil) on vested options.

The following summarizes information about stock options outstanding at December 31, 2019:

Expiry date	Exercise price	Options outstanding	Options exercisable	Weighted average remaining contractual years
March 29, 2022	\$ 0.25	1,160,000	386,667	2.24
Total		1,160,000	386,667	2.24

Share-based payment reserve

The share-based payment reserve records items recognized as stock-based compensation expense and other share-based payments until such time that the stock options or warrants are exercised, at which time the corresponding amount will be transferred to share capital.

9. Financial risk and capital management

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, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in a bank account. The cash is deposited in a bank account held with a major bank in Canada. As the Company's cash is held by one bank there is a concentration of credit risk. This risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies. Credit risk is assessed as low. Credit risk with respect to loan and interest receivables is assessed as moderate due to the risk of potential non payments.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding. Liquidity risk is assessed as high.

Foreign exchange risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company had no exposure to foreign exchange risk.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's cash on hand is subject to minimal interest rate risk and the debentures have fixed interest rates. Interest rate risk is assessed as low.

Capital Management

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of equity, comprising share capital and working capital. There were no changes in the Company's approach to capital management during the year. The Company is not subject to any externally imposed capital requirements.

9. Financial risk and capital management (cont'd)

Classification of financial instruments

Financial assets included in the statement of financial position are as follows:

	December 31, 2019	March 31, 2019
FVTPL:		
Cash	\$ 62,910	\$ 105,481
Amortized costs:		
Interest receivable	757,623	549,861
PIK interest receivable	516,163	362,586
Loans receivable	21,223,000	17,234,000
	\$ 22,559,696	\$ 18,251,928

Financial liabilities included in the statement of financial position are as follows:

	December 31, 2019	March 31, 2019
Amortized costs:		
Accounts payable	\$ 540,082	\$ 458,402
Dividends payable	497,250	382,000
Preferred share liability	43,650	188,833
Lease liability	91,567	-
Debentures	19,324,300	15,085,969
	\$ 20,496,849	\$ 16,115,204

Fair value

The fair value of the Company's financial assets and liabilities approximates the carrying amount.

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.

Financial instruments classified as level 1 – quoted prices in active markets include cash.