TRENCHANT CAPITAL CORP.

Consolidated Financial Statements

Three months Ended June 30, 2018

Expressed in Canadian Dollars

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the condensed consolidated interim financial statements have not been reviewed by an auditor.

The accompanying unaudited interim condensed consolidated interim financial statements have been prepared by and are the responsibility of the management of Trenchant Capital Corp.

The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Vancouver, Canada

August 29, 2018

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

	Notes	June 30, 2018	March 31, 2018
ASSETS			
Current assets			
Cash		$ 316,723	$ 489,483
Prepaids		20,124	9,425
Interest receivable	3	429,753	240,509
		766,600	739,417
Long-term assets			
PIK interest receivable	3	212,407	163,147
Loans receivable	3	14,899,000	14,899,000
TOTAL ASSETS		**$ 15,878,007**	**$ 15,801,564**
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	4	$ 480,874	$ 379,247
Dividends payable	7,10	166,000	216,000
		646,874	595,247
Long-term Liabilities			
Preferred share liability	7	366,077	354,044
Debentures	6	12,714,397	12,704,624
TOTAL LIABILITIES		**13,727,348**	**13,653,915**
SHAREHOLDERS' EQUITY			
Share capital	7	4,157,518	4,111,518
Preferred shares	7	2,192,676	2,192,676
Share-based payment reserve	7	343,158	343,158
Deficit		(4,542,693)	(4,499,703)
TOTAL EQUITY		**2,150,659**	**2,147,649**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 15,878,007**	**$ 15,801,564**

Going concern (Note 1)
Subsequent events (Note 10)

On behalf of the board:

"Eric Boehnke"
Eric Boehnke, Director

"John Legg"
John Legg, Director

Trenchant Capital Corp.
Consolidated Statements of Comprehensive Loss
(Expressed in Canadian Dollars)

	Note	Three months ended June 30, 2018	June 30, 2017
Revenues			
Interest income	3	$ 446,136	$ 70,236
Expenses			
Accretion	6	33,902	-
Business development		42,703	54,292
Consulting		16,950	75,000
General and administrative		26,418	9,393
Interest	6	322,393	63,212
Professional fees	5	26,973	10,928
Transfer agent and filing fees		19,787	18,964
		489,126	231,789
Net and comprehensive loss		**$ (42,990)**	**$ (161,553)**
Loss per share – basic and diluted	7	**$ (0.00)**	**$ (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, 2017	**11,535,885**	**-**	**$ 4,111,518**	**$ -**	**$ 343,158**	**$ (4,150,706)**	**$ 303,970**
Issue of preferred shares (Note 7)	-	6,750,000	-	2,700,000	-	-	2,700,000
Comprehensive loss	-	-	-	-	-	(161,553)	(161,553)
Balance at June 30, 2017	**11,535,885**	**6,750,000**	**$ 4,111,518**	**$ 2,700,000**	**$ 343,158**	**$ (4,312,259)**	**$ 2,842,417**
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 7)	**102,222**		**46,000**	**-**	**-**	**-**	**46,000**
Comprehensive loss	-	-	-	-	-	(42,990)	(42,990)
Balance at June 30, 2018	**11,638,107**	**6,750,000**	**$ 4,157,518**	**$ 2,192,676**	**$ 343,158**	**$ (4,542,693)**	**$ 2,150,659**

Trenchant Capital Corp.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Three months ended	
	June 30, 2018	June 30, 2017
Operating activities		
Net loss	$ (42,990)	$ (161,553)
Adjustments for non-cash items:		
Accretion expense	33,902	-
Accrued interest	12,033	-
Changes in non-cash working capital items:		
GST receivable	-	(20,270)
Prepaid expenses	(10,699)	20,000
Financing costs	-	236,253
Advance	-	(1,500,000)
Interest receivable	(238,504)	(70,236)
Accounts payables and accrued liabilities	97,627	63,963
Net cash flows used in operating activities	(148,631)	(1,431,843)
Investing activities		
Advance of loans	-	(7,010,000)
Net cash flows used in investing activities	-	(7,010,000)
Financing activities		
Issuance of preferred shares	-	2,700,000
Issuance of debentures	-	7,010,000
Debenture financing costs	(24,129)	(263,371)
Net cash flows from financing activities	(24,129)	9,440,629
Increase in cash	(172,760)	998,786
Cash, beginning	489,483	188,651
Cash, ending	**$ 316,723**	**$ 951,184**

Non-cash activities		
Shares issued for divedents payable	$ 46,000	$ -

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 1021 West Hastings Street, 9th Floor, Vancouver, BC, V6E 0C3. The Company has two subsidiaries, 0960128 B.C. Ltd. and 1141864 B.C. Ltd.

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 $4,542,693 at June 30, 2018, 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 a 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.

On March 7, 2017, the Company filed and obtained a receipt for a preliminary prospectus with security regulatories 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" (Note 6).

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") (Note 6).

2. Significant accounting policies and basis of preparation

The consolidated financial statements were authorized for issue on August 29, 2018 by the directors of the Company.

Statement of compliance with International Financial Reporting Standards

The consolidated financial statements of the Company comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

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

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*	
		June 30, 2018	**June 30, 2017**
0960128 B.C. Ltd.	Canada	100%	100%
1141864 B.C. Ltd.	Canada	100%	-

*Percentage of voting power is in proportion to ownership.

Significant estimates and assumptions

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the fair value measurements for financial instruments and the recoverability and measurement of deferred tax assets.

Significant judgments

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgment applied in preparing the Company's financial statements are the assessment of the Company's ability to continue as a going concern and the recoverability of deferred tax assets.

Share-based payments

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payment reserve. The fair value of options is determined using the Black–Scholes Option Pricing Model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

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

Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing the earnings (loss) attributable to common shareholders by the weighted average number of common shares outstanding in the period. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

Financial instruments

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a Company with significant financial assets is managed by key management personnel on a fair value basis in accordance with a risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

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

Financial instruments *(cont'd)*

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen.

The Company does not have any derivative financial assets and liabilities.

Income taxes

Current income tax:

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax:

Deferred income tax is provided using the asset and liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

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's 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.

(Expressed in Canadian Dollars)

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

Foreign currency translation *(cont'd)*

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.

Accounting standards issued but not yet effective

Certain new standards, interpretations and amendments to existing standards are not yet effective as of March 31, 2018 and have not been applied in preparing these financial statements. The Company does not anticipate any of the below standards to have a material impact on the financial statements.

IFRS 9 Financial Instruments – Classification and Measurement

IFRS 9 is a new standard on financial instruments that will replace IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 addresses classification and measurement of financial assets and financial liabilities as well as derecognition of financial instruments. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss.

Effective for annual periods beginning on or after January 1, 2018.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

3. Loans

	June 30, 2018	**March 31, 2018**
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
Waiward loans	7,740,000	7,740,000
ABO loan	5,659,000	5,659,000
March 2018	1,500,000	1,500,000
ABO loans	7,159,000	7,159,000
	$ 14,899,000	$ 14,899,000

(Expressed in Canadian Dollars)

3. Loans (cont'd)

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 three months ended June 30, 2018 was $246,327 (2017 - $87,795), of which $197,068 (2017 - $70,236) was receivable at June 30, 2018 and $49,259 (2017 - $17,559) 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' subsidiary 1141864 B.C. Ltd. agreed to lend $5,569,000 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"). Interest earned in the three months ended June 30, 2018 was $169,235 (2017 - $Nil), which was receivable at June 30, 2018. The loan is secured by the borrower's indirect equity interest in Omni Health Investments Inc.

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. Interest earned in the three months ended June 30, 2018 was $30,574 (2017 - $Nil), which was receivable at June 30, 2018.

4. Accounts payable and accrued liabilities

	June 30, 2018	March 31, 2018
Accounts payable (Notes 5 and 6)	$ 453,264	$ 365,094
Accrued liabilities	27,610	14,153
	$ 480,874	$ 379,247

(Expressed in Canadian Dollars)

5. Related party transactions

Related party balances:

The following amounts are due to related parties and included in accounts payable (Note 4):

	June 30, 2018	March 31, 2018
CFO	1,575	1,575
	$ 1,575	$ 1,575

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

Key management personnel compensation

	Three months ended	
	June 30, 2018	June 30, 2017
CFO – Professional fees	$ 1,575	$ 1,575

6. Debentures

	June 30, 2018	March 31, 2018
Balance, beginning	$ 12,704,624	$ -
Proceeds from issuance of debentures		13,399,000
Deferral of financing costs	(24,129)	(780,239)
Interest expense	310,360	593,720
Interest paid or payable	(310,360)	(593,720)
Accretion of financing costs	33,902	85,863
	$ 12,714,397	$ 12,704,624

The Debenture Offering

On March 7, 2017, the Company filed and obtained a receipt for a preliminary prospectus with security regulatories 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.

6. Debentures (cont'd)

During the three months ended June 30, 2018, the Company has recognized as accretion expense of $33,902 (2017 - $Nil) related to this Debenture Offering. During the three months ended June 30, 2018, interest expense of $174,150 was accrued (2017 - $63,212) and is included in accounts payable (Note 4).

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".

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.

6. Debentures (cont'd)

During the three months ended June 30, 2018, the Company incurred financing costs of $24,129 (2017 - $Nil) related to these Omni Debentures. During the three months ended June 30, 2018, interest expense of $136,210 (2017 - $Nil) was accrued, which is included in accounts payable (Note 4).

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.

7. 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 June 30, 2018 there were 11,638,107 (2017 - 11,535,885) issued and fully paid common shares.

During the three months ended June 30, 2018, the company issued 102,222 Common shares at $0.45 as settlement of $46,000 of the dividend payable.

During the year ended March 31, 2018, the Company issued 6,750,000 preferred shares at a price of $0.40 per share for gross proceeds of $2,700,000.

(Expressed in Canadian Dollars)

7. Share capital (cont'd**)**

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 June 30, 2018, there are dividends payable on the preferred shares of $166,000 (2017: $Nil).

The continuity of the preferred share liability for the year ended June 30, 2018 is as follows:

	June 30, 2018	March 31, 2018
Balance, beginning	$ 354,044	$ -
Proceeds from issuance of preferred shares	-	2,700,000
Equity component of preferred shares	-	(2,192,676)
Interest expense	12,033	62,720
Dividends payable	-	(216,000)
Balance, ending	$ 366,077	$ 354,044

Basic and diluted loss per share

The calculation of basic loss per share for the three months ended June 30, 2018 was based on the loss attributable to common shareholders of $26,040 (2017: $161,553) and the weighted average number of common shares outstanding of 11,540,926 (2017: 11,535,885).

7. 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.

There were no options outstanding at June 30, 2018 and 2017.

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.

8. 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.

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.

(Expressed in Canadian Dollars)

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

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.

Classification of financial instruments

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

	June 30, 2018	March 31, 2018
Held for trading:		
Cash	$ 316,723	$ 489,483
Loans and receivables:		
Interest receivable	429,753	240,509
PIK interest receivable	212,407	163,147
Loans receivable	14,899,000	14,899,000
	$ 15,857,883	$ 15,792,139

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

	June 30, 2018	March 31, 2018
Non-derivative financial liabilities:		
Accounts payable	$ 480,874	$ 365,094
Dividends payable	166,000	216,000
Preferred share liability	366,077	354,044
Debentures	12,714,397	12,704,624
	$ 13,727,348	$ 13,639,762

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

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.

9. Commitments

On April 23, 2018, the Company entered into an office lease agreement, which commences September 1, 2018 for a period of three years. Annual rents for the three year period are $56,406, $57,749, and $59,092, respectively.