

**TRENCHANT CAPITAL CORP.**  
**Condensed Consolidated Interim Financial Statements**  
**Three and Six Months Ended September 30, 2018 and 2017**

**Expressed in Canadian Dollars**  
**(Unaudited-Prepared by Management)**

## **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

November 29, 2018

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

	Notes	September 30, 2018	March 31, 2018
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 227,881	\$ 489,483
Prepays		18,343	9,495
Interest receivable		496,715	240,509
		742,939	739,417
<b>Long-term assets</b>			
Furniture and fixtures		17,831	-
PIK interest receivable	4	262,518	163,147
Loans receivable	4	17,234,000	14,899,000
<b>TOTAL ASSETS</b>		<b>\$ 18,257,288</b>	<b>\$ 15,801,564</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable	5,6,7	\$ 402,758	\$ 379,247
Dividends payable		166,000	216,000
		568,758	595,247
<b>Long-term Liabilities</b>			
Preferred share liability		378,656	354,044
Debentures	6	15,081,419	12,704,624
<b>TOTAL LIABILITIES</b>		<b>16,028,833</b>	<b>13,653,915</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	8	4,157,518	4,111,518
Preferred shares	8	2,195,676	2,192,676
Share-based payment reserve	8	343,158	343,158
Deficit		(4,464,897)	(4,499,703)
<b>TOTAL EQUITY</b>		<b>2,228,455</b>	<b>2,147,649</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 18,257,288</b>	<b>\$ 15,801,564</b>

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

	Notes	Three month periods ended		Six month periods ended	
		September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
<b>Revenues</b>					
Interest income	4	\$ 483,345	\$ 257,475	\$ 929,481	\$ 327,711
<b>Expenses</b>					
Consulting		2,678	10,000	19,628	85,000
Business development		1,781	-	44,484	-
General and administrative		1,386	(8,585)	27,804	55,100
Interest		380,297	199,219	736,592	262,531
Investor relations		-	20,950	-	20,950
Transfer agent and filing fees		8,954	15,269	28,741	34,233
Professional fees	7	10,453	7,986	37,426	18,913
		(405,549)	(244,839)	(894,675)	(476,728)
<b>Net and comprehensive income (loss) for the period</b>		\$ 77,796	\$ 12,636	\$ 34,806	\$ (149,017)
<b>Income (loss) per share – basic and diluted</b>		\$ 0.00	\$ (0.00)	\$ 0.00	\$ (0.01)

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

	Share capital						Deficit	Total
	Number of Common shares	Number of Preferred shares	Common shares	Preferred shares	Share-based payment reserve			
<b>Balance at March 31, 2017</b>	<b>11,535,885</b>	-	<b>\$ 4,111,518</b>	<b>\$ -</b>	<b>\$ 343,158</b>	<b>\$ (4,150,706)</b>	<b>\$ 303,970</b>	
Issue of preferred shares (Note 7)	-	6,750,000	-	2,700,000	-	-	2,700,000	
Comprehensive loss	-	-	-	-	-	(149,017)	(149,017)	
<b>Balance at September 30, 2017</b>	<b>11,535,885</b>	<b>6,750,000</b>	<b>\$ 4,111,518</b>	<b>\$ 2,700,000</b>	<b>\$ 343,158</b>	<b>\$ (4,299,723)</b>	<b>\$ 2,854,953</b>	
<b>Balance at March 31, 2018</b>	<b>11,535,885</b>	<b>6,750,000</b>	<b>\$ 4,111,518</b>	<b>\$ 2,192,676</b>	<b>\$ 343,158</b>	<b>\$ (4,499,703)</b>	<b>\$ 2,147,649</b>	
Issue of common shares (Note 7)	102,222	-	46,000	-	-	-	46,000	
Comprehensive income	-	-	-	-	-	34,806	34,806	
<b>Balance at September 30, 2018</b>	<b>11,638,107</b>	<b>6,750,000</b>	<b>\$ 4,157,518</b>	<b>\$ 2,192,676</b>	<b>\$ 343,158</b>	<b>\$ (4,464,897)</b>	<b>\$ 2,228,455</b>	

See accompanying notes to the condensed consolidated financial statements

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

	Six month periods ended	
	September 30, 2018	September 30, 2017
<b>Operating activities</b>		
Net income (loss)	\$ 34,806	\$ (149,017)
Non-cash items:		
Interest	92,202	28,274
Changes in non-cash working capital items:		
GST receivable	-	(6,494)
Interest receivable	(256,206)	(191,933)
Prepays	(8,918)	20,000
Accounts payable and accrued liabilities	19,511	81,066
<b>Net cash flows used in operating activities</b>	<b>(118,605)</b>	<b>(218,104)</b>
<b>Investing activities</b>		
Furniture and fixtures	(17,831)	-
PIK interest receivable	(99,371)	(65,542)
Loans	(2,335,000)	(7,740,000)
Advance	-	(1,500,000)
<b>Cash flows used in investing activities</b>	<b>(2,452,202)</b>	<b>(9,305,542)</b>
<b>Financing activities</b>		
Issue of preferred shares for cash	-	2,700,000
Issue of debentures for cash	2,309,205	7,428,469
<b>Cash flows from financing activities</b>	<b>2,309,205</b>	<b>10,128,469</b>
Increase (decrease) in cash	(261,602)	604,823
Cash, beginning	489,486	188,651
<b>Cash, ending</b>	<b>\$ 227,881</b>	<b>\$ 793,474</b>

**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 1790-1066 West Hastings St. V6E 3X1. 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 \$4,464,897 at September 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 regulating 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**

These unaudited condensed consolidated interim financial statements were authorized for issue on November 29, 2017 by the directors of the Company.

***Statement of compliance with International Financial Reporting Standards***

The condensed consolidated interim 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"). These condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with

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

International Accounting Standard (“IAS”) 34 – Interim Financial Reporting. Reporting, which do not include all the disclosures in the annual financial statements in accordance with IFRS. They should be read in conjunction with the Company’s consolidated financial statements for the year ended March 31, 2017. The accounting policies were consistently applied to all periods presented.

***Basis of preparation***

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

**3. Advance**

On June 29, 2017, the Company advanced a refundable deposit of \$1,500,000 to 10164950 Canada Ltd., a company controlled by the Hillcore Group Ltd. (“Hillcore”), as an advance on a second investment transaction with Hillcore, the terms of which are currently being negotiated. 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 Limited Partnership (Note 4).

**4. Loans**

	September 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
March 23, 2018	5,659,000	5,659,000
May 17, 2018	2,335,000	-
March 2018	1,500,000	1,500,000
ABO loans	9,494,000	7,159,000
	\$ 17,234,000	\$ 14,899,000

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.



**4. Loans (Con't)**

The Waiward loans were made by the Company's subsidiary 0960128 B.C. Ltd., and bear 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 six months ended September 30, 2018 was \$496,882 (2017 - \$327,711), of which \$200,444 (2017 - \$191,933) was receivable at September 30, 2018 and \$99,370 (2017 - \$65,542) 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"). 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.

Interest earned in the six months ended September 30, 2018 was \$370,728 (2017 - \$Nil), of which \$201,492 was receivable at September 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 six months ended September 30, 2018 was \$61,871 (2017 - \$Nil), which was receivable at September 30, 2018.

**5. Accounts payable**

	September 30, 2018	March 31, 2018
Accounts payable (Notes 5 and 6)	\$ 402,757	\$ 365,094
Accrued liabilities	\$ -	\$ 14,153

**6. Debentures**

	<b>September 30, 2018</b>	<b>March 31, 2018</b>
Balance, beginning	\$ 12,704,624	\$ -
Proceeds from issuance of debentures	2,335,000	13,399,000
Deferral of financing costs	(25,795)	(780,239)
Interest expense	736,592	593,720
Interest paid or payable	(736,592)	(593,720)
Accretion of financing costs	67,590	85,863
	<b>\$ 15,081,419</b>	<b>\$ 12,704,624</b>

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 six months ended September 30, 2018, the Company has recognized as accretion expense of \$67,590 (2017 - \$28,274) related to this Debenture Offering. During the six months ended September 30, 2018, interest expense of \$174,150 (2017 - \$174,150) was accrued 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.

**6. Debentures (cont'd)**

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.

During the six months ended September 30, 2018, the Company incurred financing costs of \$25,795 (2017 - \$Nil) related to these Omni Debentures. During the six months ended September 30, 2018, interest expense of \$296,090 (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.

**6. Debentures (cont'd)**

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. Related party transactions**

***Related party balances:***

The following amounts are due to related parties and included in accounts payable:

	<b>September 30, 2018</b>	<b>March 31, 2018</b>
Directors and officers of the Company (Note 5)	\$ 1,575	\$ 1,575

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

***Key management personnel compensation***

	<b>Six month periods ended</b>	
	<b>September 30, 2018</b>	<b>September 30, 2017</b>
Professional	\$ 3,150	\$ 3,150

**8. Share capital**

***Authorized share capital***

The Company is authorized to issue an unlimited number of common shares without par value and an unlimited number of preferred shares without par value.

***Issued share capital***

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

During the six months ended September 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.

**8. 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 September 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 September 30, 2018 is as follows:

	<b>September 30, 2018</b>	<b>March 31, 2018</b>
Balance, beginning	\$ 354,044	\$ -
Proceeds from issuance of preferred shares	-	2,700,000
Equity component of preferred shares	-	(2,192,676)
Interest expense	24,612	62,720
Dividends payable	-	(216,000)
Balance, ending	<u>\$ 378,656</u>	<u>\$ 354,044</u>

***Basic and diluted earnings (loss) per share***

The calculation of basic earnings per share for the six months ended September 30, 2018 was based on the earnings attributable to common shareholders of \$34,806 (2017: loss \$149,017) and the weighted average number of common shares outstanding of 11,638,107 (2017: 11,535,885).

***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

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

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 September 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.

**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.

***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 h

***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.

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

**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:

	September 30, 2018	March 31, 2018
Held for trading:		
Cash	\$ 277,881	\$ 489,483
Loans and receivables:		
Interest receivable	496,715	240,509
PIK interest receivable	262,517	163,147
Loans receivable	17,234,000	14,899,000
	\$ 18,271,113	\$ 15,792,139

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

	September 30, 2018	March 31, 2018
Non-derivative financial liabilities:		
Accounts payable	\$ 402,242	\$ 365,094
Dividends payable	166,000	216,000
Preferred share liability	378,656	354,044
Debentures	15,734	12,704,624
	\$ 16,680,898	\$ 13,639,762

**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.

**10. 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.