

TRENCHANT CAPITAL CORP.
AMENDED AND RESTATED
Condensed Consolidated Interim Financial Statements
Three and Nine Months Ended December 31, 2018 and 2017

Expressed in Canadian Dollars
(Unaudited-Prepared by Management)

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

| | Notes | December 31, 2018 | March 31, 2018 |
|---|-------|----------------------|----------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash | | \$ 159,078 | \$ 489,483 |
| Prepays | | 15,132 | 9,425 |
| Interest receivable | 3 | 526,518 | 240,509 |
| | | 700,728 | 739,417 |
| Long-term assets | | | |
| Furniture and fixtures | | 37,846 | - |
| PIK interest receivable | 3 | 312,915 | 163,147 |
| Loans receivable | 3 | 17,234,000 | 14,899,000 |
| TOTAL ASSETS | | \$ 18,285,489 | \$ 15,801,564 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable | 4,5,6 | \$ 365,445 | \$ 379,247 |
| Dividends payable | 7 | 328,000 | 216,000 |
| | | 693,445 | 595,247 |
| Long-term Liabilities | | | |
| Preferred share liability | | 229,667 | 354,044 |
| Debentures | 5 | 15,093,807 | 12,704,624 |
| TOTAL LIABILITIES | | 16,016,919 | 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 | | (4,424,782) | (4,499,703) |
| TOTAL EQUITY | | 2,268,570 | 2,147,649 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | \$ 18,285,489 | \$ 15,801,564 |

Restatement for the three and nine-month periods ended December 31, 2018 (Note 11)

Trenchant Capital Corp.
Condensed Consolidated Interim Statements of Comprehensive Income (Loss) – Amended and Restated
(Expressed in Canadian Dollars)

| | Notes | Three month periods ended | | Nine month periods ended | |
|---|-------|---------------------------|----------------------|--------------------------|----------------------|
| | | December 31, 2018 | December 31, 2017 | December 31, 2018 | December 31, 2017 |
| Revenues | | | | | |
| Interest income | 3 | \$ 482,137 | \$ 245,928 | \$ 1,411,618 | \$ 573,639 |
| Expenses | | | | | |
| Consulting | | 1,313 | 32,869 | 20,940 | 117,869 |
| Business development | | 22,316 | - | 66,800 | - |
| General and administrative | | 25,266 | 47,940 | 53,071 | 103,040 |
| Interest | 5,7 | 365,943 | 195,930 | 1,102,535 | 458,461 |
| Investor relations | | - | 10,000 | - | 30,950 |
| Transfer agent and filing fees | | 3,385 | 14,472 | 32,126 | 48,706 |
| Professional fees | 6 | 23,799 | 920 | 61,225 | 19,833 |
| | | (442,022) | (302,131) | (1,336,697) | (778,859) |
| Net and comprehensive income (loss) for the period | | \$ 40,115 | \$ (56,203) | \$ 74,921 | \$ (205,220) |
| Income (loss) per share – basic and diluted | | \$ 0.00 | \$ (0.00) | \$ 0.01 | \$ (0.02) |

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

| | Share capital | | | | | | Total |
|-------------------------------------|-------------------------------|----------------------------------|---------------------|---------------------|-----------------------------------|-----------------------|---------------------|
| | Number of Common shares | Number of Preferred shares | Common shares | Preferred shares | Share-based payment reserve | Deficit | |
| Balance at March 31, 2017 | 11,535,885 | - | \$ 4,111,518 | \$ - | \$ 343,158 | \$ (4,150,706) | \$ 303,970 |
| Issue of preferred shares (Note 6) | - | 6,750,000 | - | 2,700,000 | - | - | 2,700,000 |
| Comprehensive loss | - | - | - | - | - | (205,220) | (205,220) |
| Balance at December 31, 2017 | 11,535,885 | 6,750,000 | \$ 4,111,518 | \$ 2,700,000 | \$ 343,158 | \$ (4,355,926) | \$ 2,798,750 |
| 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 6) | 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 |

See accompanying notes to the condensed consolidated financial statements

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

| | Nine month periods ended | |
|--|--------------------------|----------------------|
| | December 31, 2018 | December 31, 2017 |
| Operating activities | | |
| Net income (loss) | \$ 74,921 | \$ (205,220) |
| Non-cash items: | | |
| Accretion | 102,971 | |
| Interest | 37,623 | 50,054 |
| Changes in non-cash working capital items: | | |
| GST receivable | - | (5,558) |
| Interest receivable | (435,777) | (311,470) |
| Prepays | (5,707) | 20,000 |
| Accounts payable and accrued liabilities | (13,802) | 138,737 |
| Dividends payable | (4,000) | - |
| Net cash flows used in operating activities | (243,771) | (313,457) |
| Investing activities | | |
| Furniture and fixtures | (37,846) | - |
| Loans | (2,335,000) | (7,740,000) |
| Advance | - | (1,500,000) |
| Cash flows used in investing activities | (2,372,846) | (9,354,728) |
| Financing activities | | |
| Issue of preferred shares for cash | - | 2,700,000 |
| Issue of debentures for cash | 2,286,212 | 7,352,661 |
| Cash flows from financing activities | 2,286,212 | 10,052,661 |
| Increase (decrease) in cash | (330,405) | 499,204 |
| Cash, beginning | 489,483 | 188,651 |
| Cash, ending | \$ 159,078 | \$ 687,855 |

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. Vancouver, B.C. V6E 3X1. The Company has three subsidiaries, 0960128 B.C. Ltd., 1141864 B.C. Ltd. and TCC Management Inc.

These amended and restated 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 an accumulated deficit of \$4,424,782 at December 31, 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 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

These amended and restated unaudited condensed consolidated interim financial statements were authorized for issue on March 12, 2019 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

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, 2018. The accounting policies were consistently applied to all periods presented, except for the adoption of IFRS 9 and IFRS 15.

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

Statement of compliance with International Financial Reporting Standards (cont'd)

Revenue recognition

Interest income on loans is determined using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the income over the life of the asset. The effective interest rate is the rate that exactly discounts estimated future cash flows to the initial carrying amount.

The Company adopted IFRS 15 Revenue from Contracts with Customers on April 1, 2018. IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts and related interpretations. The adoption of IFRS 15 resulted in no impact to the opening retained earnings on April 1, 2018.

Financial instruments

The Company adopted all of the requirements of IFRS 9 Financial Instruments on April 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 utilizes a revised model for recognition and measurement of financial instruments in a single, forward-looking “expected loss” impairment model.

The following is the Company’s new accounting policy for financial instruments under IFRS 9:

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss (“FVTPL”), at fair value through other comprehensive income (loss) (“FVTOCI”) or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company’s business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The Company completed a detailed assessment of its financial assets and liabilities as at April 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

| Financial assets/liabilities | Original classification | IAS 39 | New classification | IFRS 9 |
|------------------------------|-------------------------|--------|--------------------|--------|
| Cash | FVTPL | | FVTPL | |
| Interest receivable | Amortized cost | | Amortized cost | |
| PIK interest receivable | Amortized cost | | Amortized cost | |
| Loans receivable | Amortized cost | | Amortized cost | |
| Accounts payable | Amortized cost | | Amortized cost | |
| Dividends payable | Amortized cost | | Amortized cost | |
| Preferred share liabilities | Amortized cost | | Amortized cost | |
| Debentures | Amortized cost | | Amortized cost | |

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

Statement of compliance with International Financial Reporting Standards (cont'd)

Financial instruments (cont'd)

The adoption of IFRS 9 resulted in no impact to the opening accumulated deficit nor to the opening balance of accumulated comprehensive income on April 1, 2018.

Measurement

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of comprehensive income (loss). Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of comprehensive income (loss) in the period in which they arise.

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of comprehensive income (loss), as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. Gains and losses on derecognition are recognized in profit or loss.

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

| | December 31, 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.

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, 2018 was \$748,986 (2017 - \$573,639), of which \$201,737 (2017 - \$196,742) was receivable at December 31, 2018 and \$312,915 (2017 - \$114,728) 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 \$5,569,000 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 (Note 5).

3. Loans (cont'd)

Interest earned in the nine months ended December 31, 2018 was \$572,221 (2017 - \$Nil), of which \$201,493 was receivable at December 31, 2018. The loan is secured by the borrower's indirect equity interest in Omni Health Investments Inc. ("Omni").

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 nine months ended December 31, 2018 was \$90,411 (2017 - \$Nil), and total interest of \$123,288 was receivable at December 31, 2018.

4. Accounts payable

| | December 31, 2018 | March 31, 2018 |
|----------------------------------|------------------------------|---------------------------|
| Accounts payable (Notes 5 and 6) | \$ 365,445 | \$ 365,094 |
| Accrued liabilities | - | 14,153 |
| | \$ 365,445 | \$ 379,247 |

5. Debentures

| | December 31, 2018 | March 31, 2018 |
|--------------------------------------|------------------------------|---------------------------|
| Balance, beginning | \$ 12,704,624 | \$ - |
| Proceeds from issuance of debentures | 2,335,000 | 13,399,000 |
| Deferral of financing costs | (48,788) | (780,239) |
| Interest expense | 1,102,535 | 593,720 |
| Interest paid or payable | (999,564) | (593,720) |
| Accretion of financing costs | 102,971 | 85,863 |
| | \$ 15,093,807 | \$ 12,704,624 |

5. 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, 2018, the Company has recognized as accretion expense of \$79,410 (2017 - \$67,590) related to this Debenture Offering. During the nine months ended December 31, 2018, interest expense of \$522,450 (2017 - \$174,150) was paid and accrued, of which \$174,150 was 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”.

5. 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.

During the nine months ended December 31, 2018, the Company incurred financing costs of \$48,788 (2017 - \$72,696) related to these Omni Debentures. During the nine months ended December 31, 2018, the Company has recognized as accretion expense of \$23,561 (2017 - \$Nil) related to this Debenture Offering. During the nine months ended December 31, 2018, interest expense of \$439,491 (2017 - \$Nil) was paid and accrued, of which \$143,401 was 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.

6. Related party transactions

Related party balances:

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

| | December 31, 2018 | March 31, 2018 |
|--|------------------------------|---------------------------|
| Directors and officers of the Company (Note 4) | \$ 1,575 | \$ 1,575 |

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

Key management personnel compensation

| | Nine month periods ended | |
|--------------|---------------------------------|------------------------------|
| | December 31, 2018 | December 31, 2017 |
| Professional | \$ 4,725 | \$ 4,725 |

7. 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 December 31, 2018 there were 11,638,107 (2017 - 11,535,885) issued and fully paid common shares.

During the nine months ended December 31, 2018, the Company issued 102,222 common shares at a fair value of \$0.45 per share 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.

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.

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

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, 2018, there are dividends payable on the preferred shares of \$328,000 (2017: \$Nil).

The continuity of the preferred share liability for the year ended December 31, 2018 is as follows:

| | December 31, 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 | 37,623 | 62,720 |
| Dividends payable | (162,000) | (216,000) |
| Balance, ending | \$ 229,667 | \$ 354,044 |

Basic and diluted earnings (loss) per share

The calculation of basic earnings per share for the nine months ended December 31, 2018 was based on the earning attributable to common shareholders of \$74,921 (2017: loss \$205,220) and the weighted average number of common shares outstanding of 11,604,280 (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 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 December 31, 2018 and 2017.

7. Share capital (cont'd)

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 and interest receivables. 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. The Company's credit risk with respect to interest receivable is assessed as moderate due to potential risks in collection from borrowers.

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 and debt instruments for cash, primarily through private placements and debentures. 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.

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 its loans and 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:

| | December 31, 2018 | March 31, 2018 |
|-------------------------|------------------------------|---------------------------|
| Held for trading: | | |
| Cash | \$ 159,078 | \$ 489,483 |
| Loans and receivables: | | |
| Interest receivable | 526,518 | 240,509 |
| PIK interest receivable | 312,915 | 163,147 |
| Loans receivable | 17,234,000 | 14,899,000 |
| | \$ 18,073,433 | \$ 15,792,139 |

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

| | December 31, 2018 | March 31, 2018 |
|---------------------------------------|------------------------------|---------------------------|
| Non-derivative financial liabilities: | | |
| Accounts payable | \$ 365,445 | \$ 365,094 |
| Dividends payable | 328,000 | 216,000 |
| Preferred share liability | 229,667 | 354,044 |
| Debentures | 15,093,807 | 12,704,624 |
| | \$ 16,016,919 | \$ 13,639,762 |

9. 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.

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. The Company has subsequently sub-leased approximately 50% of the office.

11. Restatement for the three and nine-month periods ended December 31, 2018

A review of the interim consolidated unaudited financial statement was performed for the period ended December 31, 2018 and it was determined that an amendment of this previously filed financial statement was appropriate. The financial items being amended are as follows:

- a) The interest income was increased by \$78,937 from \$1,332,681 to \$1,411,618 and the interest expense was decreased by \$16,479 from \$1,119,014 to \$1,102,535, thereby increasing the reported income for the period to \$74,921 and increasing the earning per share to \$0.01.

| | Nine month periods ended | | | December 31, 2017 |
|-------------------------|--------------------------|--------------|----|----------------------|
| | Previous | Restated | | |
| Interest income | \$ 1,332,681 | \$ 1,411,618 | \$ | 573,639 |
| Interest expense | 1,119,014 | 1,102,535 | \$ | 458,461 |
| Net income (loss) | \$ (20,495) | \$ 74,921 | \$ | (205,220) |
| Income (loss) per share | \$ (0.00) | \$ 0.01 | \$ | (0.02) |

- b) The accrual of dividend payable as at December 31, 2019 was increased by \$162,000 from \$166,000 to \$328,000, with the decrease to the preferred share liability in the same amount from \$391,667 to \$229,667.

These condensed interim financial statements and related notes for the nine-month period ended December 31, 2018 have been amended to reflect these changes.