

TRENCHANT CAPITAL CORP.
Consolidated Financial Statements
Three months Ended June 30, 2019

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 Echelon Petroleum 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, 2019

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

	Notes	June 30, 2019	March 31, 2019
ASSETS			
Current assets			
Cash		\$ 171,324	\$ 105,481
Accounts receivable		-	4,350
Prepays		22,898	57,898
Interest receivable	3	603,379	549,861
		797,601	717,590
Long-term assets			
Equipment, net		32,503	34,395
Right- of- use asset, net		163,793	-
PIK interest receivable	3	413,088	362,586
Loans receivable	3	21,248,000	17,234,000
TOTAL ASSETS		\$ 22,654,985	\$ 18,348,571
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	4	\$ 585,115	\$ 478,902
Dividends payable	6	332,000	382,000
		917,115	860,902
Long-term Liabilities			
Lease liability		165,976	
Preferred share liability	7	195,251	188,833
Debentures	6	19,219,000	15,085,969
TOTAL LIABILITIES		20,497,342	16,135,704
SHAREHOLDERS' EQUITY			
Share capital	7	4,157,518	4,157,518
Preferred shares	7	2,192,676	2,192,676
Share-based payment reserve	7	434,387	409,597
Deficit		(4,626,938)	(4,546,924)
TOTAL EQUITY		2,157,643	2,212,867
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 22,654,985	\$ 18,348,571

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

On behalf of the board:

"Eric Boehnke"
Eric Boehnke, Director

"Tom English"
John Legg, Director

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

	Note	Three months ended	
		June 30, 2019	June 30, 2018
Revenues			
Interest income	3	\$ 499,698	\$ 446,136
Expenses			
Accretion	6	41,976	33,902
Business development		43,120	42,703
Consulting		-	16,950
Depreciation		20,791	-
General and administrative		4,989	26,418
Interest	6	358,635	322,393
Professional fees	5	59,596	26,973
Share-based payment		24,790	-
Transfer agent and filing fees		25,815	19,787
		579,712	489,126
Net and comprehensive loss		\$ (80,014)	\$ (42,990)
Loss per share – basic and diluted	7	\$ (0.00)	\$ (0.00)

See accompanying notes to the consolidated financial statements

Trenchant Capital Corp.
Consolidated 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			
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	11,535,885	6,750,000	\$ 4,157,518	\$ 2,192,676	\$ 343,158	\$ (4,542,693)	\$ 2,150,659	
Balance at March 31, 2019	11,638,107	6,750,000	\$ 4,157,518	\$ 2,192,676	\$ 409,597	\$ (4,546,924)	\$ 2,212,867	
Share-based payments	-	-	-	-	24,790	-	24,790	
Comprehensive loss	-	-	-	-	-	(80,014)	(80,014)	
Balance at June 30, 2019	11,638,107	6,750,000	\$ 4,157,518	\$ 2,192,676	\$ 434,387	\$ (4,626,938)	\$ 2,157,643	

See accompanying notes to the consolidated financial statements

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

	Three months ended	
	June 30, 2019	June 30, 2018
Operating activities		
Net loss	\$ (80,014)	\$ (42,990)
Adjustments for non-cash items:		
Accretion expense	41,976	33,902
Accrued interest	6,418	12,033
Amortization-right to use asset	18,899	-
Depreciation	1,892	-
Share-based-payments	24,790	-
Changes in non-cash working capital items:		
Receivables	4,350	-
Prepaid expenses	35,000	(10,699)
Interest receivable	(53,518)	(238,504)
Accounts payables and accrued liabilities	56,213	97,627
Net cash flows used in operating activities	56,006	(148,631)
Investing activities		
Advance of loans	(4,189,000)	-
Repayment of loan	175,000	-
PIK receivable	(50,502)	-
Net cash flows from investing activities	(4,064,502)	-
Financing activities		
Repayment of lease liability	(16,716)	-
Issuance of debentures	4,189,000	-
Debenture financing costs	(97,945)	(24,129)
Net cash flows from financing activities	4,074,339	(24,129)
Increase (decrease) in cash	65,843	(172,760)
Cash, beginning	105,481	489,483
Cash, ending	\$ 171,324	\$ 316,723
Non-cash activities		
Shares issued for dividends payable	\$ -	\$ 46,000

See accompanying notes to the consolidated financial statements

1. Nature and continuance of operations

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

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

These financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. The Company has incurred losses since its inception and had an accumulated deficit of \$4,626,938 at June 30, 2019, which has been funded primarily by issuance of securities debentures and loans from related parties. This indicates the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern.

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

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

2. Significant accounting policies and basis of preparation

The 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”).

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.

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.

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

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	

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.

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

Financial instruments (cont'd)

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)

Equipment

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

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

Furniture and fixtures straight line method over 5 years

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

Basis of preparation

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

Consolidation

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

	Country of incorporation	Percentage owned*	
		March 31, 2019	March 31, 2018
0960128 B.C. Ltd.	Canada	100%	100%
1141864 B.C. Ltd.	Canada	100%	100%
TCC Management Inc	Canada	100%	-

*Percentage of voting power is in proportion to ownership.

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

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.

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

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.

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.

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.

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

Income taxes (cont'd)

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 and its subsidiaries' functional and presentation currency.

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

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

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

New Standards and Interpretations

New standard IFRS 16 "Leases"

This new standard replaces IAS 17 "Leases" and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is not substantially changed. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted in certain circumstances.

The Company applied IFRS at the start of the fiscal year beginning on April 1, 2019 and applied the simplified transition approach which does not require restatement of comparative periods, as permitted under the specific transitional provisions in the standard. The right-to-use asset was measured on transition as if the new standard had been applied since the respective lease commencement date but using the Company's incremental borrowing rate of 12% as at April 1, 2019. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized on the opening balance sheet on

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

April 1, 2019. On adoption of IFRS16 the Company recognized lease liability in relation to an office lease which had previously classified as “operating lease” under the principles of IAS 17 Leases. The office lease has a term to August 31, 2021. The Company recognized a right-of-use asset of \$182,692 on April 1, 2019 and a lease liability of \$182,692.

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, 2019	March 31, 2019
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
July 2018	2,335,000	2,335,000
May 2019	2,428,000	-
June 2019	1,761,000	-
ABO loans	12,183,000	9,494,000
	\$ 19,923,000	\$ 17,234,000

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 three months ended June 30, 2019 was \$202,009 (2018 - \$246,327), which was receivable at June 30, 2019 and \$413,088 (2018 - \$49,259) 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

Trenchant Capital Corp.
Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)
For the three months ended June 30, 2019 and 2018

3. Loans (cont'd)

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 6).

Interest earned in the three months ended June 30, 2019 was \$216,715 and \$169,235, 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. ABO repaid \$175,000 of the loan in June 2019. Interest earned in the three months ended June 30, 2019 was \$30,472 (2018 - \$30,574), which was receivable at June 30, 2018. The receivable at June 30, 2019 is \$184,625.

4. Accounts payable and accrued liabilities

	June 30, 2019	March 31, 2019
Accounts payable (Notes 5 and 6)	\$ 562,950	\$ 458,402
Accrued liabilities	21,665	20,500
	\$ 585,115	\$ 379,247

5. Related party transactions

Related party balances:

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

	June 30, 2019	March 31, 2019
CFO	2,625	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, 2019	June 30, 2018
CFO – Professional fees	\$ 2,625	\$ 1,575

6. Debentures

	June 30, 2018	March 31, 2019
Balance, beginning	\$ 15,085,969	\$ 12,704,624
Proceeds from issuance of debentures	4,189,000	2,335,000
Deferral of financing costs	(97,945)	(109,343)
Interest expense	352,217	1,312,450
Interest paid or payable	(352,217)	(1,312,450)
Accretion of financing costs	41,976	155,688
	\$ 12,714,397	\$ 15,085,969

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 three months ended June 30, 2019, the Company has recognized as accretion expense of \$41,9876 (2018 - \$33,902 related to this Debenture Offering. During the three months ended June 30, 2019, interest expense of \$174,150 was accrued (2018 - \$174,150) 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. On May 13, 2019, the Company closed the third tranche of the Omni Debentures for which gross proceeds of \$2,428,000 were raised through the issuance of 2,428 Omni Debentures. On June 28, 2019, the Company closed the fourth tranche of the Omni Debentures for which gross proceeds of \$1,761,000 were raised through the issuance of 1,761 Omni Debentures (Note 11).

During the three months ended June 30, 2019, the Company incurred financing costs of \$97,946 (2018 - \$24,129) related to these Omni Debentures. During the three months ended June 30, 2019, interest expense of \$178,067 (2018 - \$136,210) 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

6. Debentures (cont'd)

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 (2018 - 11,638,107) 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.

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, 2019, there are dividends payable on the preferred shares of \$332,000 (2018 - \$166,000).

7. Share capital (cont'd)

The continuity of the preferred share liability for the year ended June 30, 2019 is as follows:

	June 30, 2019	March 31, 2019
Balance, beginning	\$ 188,833	\$ 354,044
Interest expense	6,418	50,789
Dividends payable	-	(216,000)
Balance, ending	\$ 195,251	\$ 188,833

Basic and diluted loss per share

The calculation of basic loss per share for the three months ended June 30, 2019 was based on the loss attributable to common shareholders of \$77,831 (2018 - \$26,050) and the weighted average number of common shares outstanding of 11,638,107 (2018 - 11,540,926).

Stock options

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

On March 29, 2019, the Company granted 1,160,000 options to purchase common shares to directors and officers of the Company, at \$0.25 per common share. Each option is exercisable into one common share at an exercise price of \$0.25 until March 29, 2022. The options vest annually over three years, with 1/3 of the options vesting each year commencing on the date of grant, being March 29, 2019. The closing price of the Common Shares on March 29, 2019 was \$0.29. The fair value of the options granted was determined to be \$199,318 using the following assumptions: Risk-free rate of 1.43%; Expected life of 3 years, expected volatility of 100% and dividend yield of nil. For three months ended June 30, 2019, the Company recognized share-based payment of \$24,790 (2018 -\$nil) on vested options.

7. Share capital (cont'd)

The following summarizes information about stock options outstanding at June 30, 2019:

Expiry date	Exercise price	Options outstanding	Options exercisable	Weighted average remaining contractual years
March 29, 2022	\$ 0.25	1,160,000	386,667	3.00
Total		1,160,000	386,667	3.00

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. Credit risk with respect to loan and interest receivables is assessed as moderate due to the risk of potential non payments.

Liquidity risk

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

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

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, 2019	March 31, 2019
Held for trading:		
Cash	\$ 171,324	\$ 105,481
Loans and receivables:		
Interest receivable	603,379	549,861
PIK interest receivable	413,088	362,586
Loans receivable	21,248,000	17,234,000
	\$ 22,435,791	\$ 18,251,928

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

	June 30, 2019	March 31, 2019
Non-derivative financial liabilities:		
Accounts payable	\$ 585,115	\$ 458,402
Dividends payable	332,000	382,000
Preferred share liability	195,251	188,833
Lease liability	165,976	-
Debentures	19,219,000	15,085,969
	\$ 20,497,342	\$ 16,115,204

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.