TRENCHANT CAPITAL CORP.

Consolidated Financial Statements

Three months Ended June 30, 2020

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 31, 2020

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

	Notes	(Unaudited) June 30, 2020	(Audited) March 31, 2020
ASSETS			
Current assets			
Cash		$ 63,819	$ 63,848
Accounts receivable		33,840	17,400
Prepaids		33,148	36,538
Interest receivable	4	509,493	781,291
		640,300	899,077
Long-term assets			
Equipment, net	3	89,797	105,590
PIK interest receivable	4	619,120	567,482
Loans receivable	4	19,923,000	21,223,000
TOTAL ASSETS		**$ 21,272,217**	**$ 22,795,149**
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	5	$ 626,838	$ 610,699
Dividends payable	8	-	547,250
Lease liability, current portion	5	62,194	61,459
		689,063	1,219,408
Long-term Liabilities			
Lease liability		2,254	16,684
Debentures	7	19,392,901	19,354,045
TOTAL LIABILITIES		**20,084,187**	**20,590,137**
SHAREHOLDERS' EQUITY			
Share capital	8	5,673,085	4,170,018
Preferred shares	8	-	2,180,176
Share-based payment reserve	8	517,209	508,938
Deficit		(5,002,264)	(4,654,120)
TOTAL EQUITY		**1,188,030**	**2,205,012**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 21,272,217**	**$ 22,795,149**

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

On behalf of the board:

"Eric Boehnke"
Eric Boehnke, Director

"Tom English"
Tom English, Director

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

	Note	Three months ended June 30, 2020	June 30, 2019
Revenues			
Interest income	4	$ 561,102	$ 499,698
Expenses			
Accretion	7	52,604	41,976
Business development		-	43,120
Depreciation		15,792	15,792
General and administrative		(4,184)	3,021
Interest	7	405,662	365,018
Professional fees	6	48,203	59,596
Share-based payment		8,271	24,790
Transfer agent and filing fees		17,137	38,562
Gain on debt settlements		(141,563)	-
		401,922	591,875
Net and comprehensive income (loss) for the period		**$ 159,180**	**$ (92,177)**
Income (loss) per share – basic and diluted	7	**$ 0.01**	**$ (0.01)**

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

	Share capital						
	Number of Common shares	**Number of Preferred shares**	**Common shares**	**Preferred shares**	**Share-based payment reserve**	**Deficit**	**Total**
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	**-**	**-**	**-**	**-**	**-**	**(92,177)**	**(92,177)**
Balance at June 30, 2019	**11,638,107**	**6,750,000**	**$ 4,157,518**	**$ 2,192,676**	**$ 434,387**	**$ (4,639,101)**	**$ 2,145,480**
Balance at March 31, 2020	**11,669,357**	**6,718,750**	**$ 4,170,018**	**$ 2,180,176**	**$ 508,938**	**$ (4,654,120)**	**$ 2,205,012**
Issue of common shares on conversion of preferred shares	**3,281,250**	**(3,281,250)**	**1,312,500**	**(1,312,500)**	**-**	**-**	**-**
Issue of common shares on debt settlement	**3,811,344**	**-**	**190,567**	**-**	**-**	**-**	**190,567**
Cancellation of preferred shares on debt settlement	**-**	**(3,437,500)**	**-**	**(867,676)**		**(507,324)**	**(1,375,000)**
Share-based payments	**-**	**-**	**-**	**-**	**8,271**	**-**	**8,271**
Comprehensive income	**-**	**-**	**-**	**-**	**-**	**159,180**	**159,180**
Balance at June 30, 2020	**18,761,951**		**$ 5,673,085**	**$ -**	**$ 517,209**	**$ (5,002,264)**	**$ 1,188,030**

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

	Three months ended	
	June 30, 2020	**June 30, 2019**
Operating activities		
Net income (loss)	$ 159,180	$ (92,177)
Adjustments for non-cash items:		
Accretion expense	38,856	41,976
Accrued interest	(12,545)	6,418
Depreciation	15,792	15,792
Share-based-payments	8,271	24,790
Changes in non-cash working capital items:		
Receivables	(16,440)	4,350
Prepaid expenses	3,390	35,000
Interest receivable	141,564	(53,518)
Accounts payables and accrued liabilities	(3,331)	51,862
Net cash flows provided by operating activities	51,609	34,493
Investing activities		
Advance of loans	-	(4,189,000)
Repayment of loan	-	200,000
PIK receivable	(51,638)	(50,502)
Net cash flows used in investing activities	(51,638)	(4,039,502)
Financing activities		
Repayment of lease liability	-	(12,300)
Issuance of debentures	-	4,189,000
Debenture financing costs	-	(97,945)
Net cash flows provided by financing activities	-	4,078,755
Increase (decrease) in cash	(29)	73,746
Cash, beginning	63,848	105,481
Cash, ending	**$ 63,819**	**$ 179,227**

Non-cash activities		
Shares issued for dividends payable	$ 190,567	$ 46,000
Shares issued conversion of preferred shares	1,312,500	-
Cancellation of preferred shares on debt settlement	1,375,000	-

1. Nature and continuance of operations

Trenchant Capital Corp. (the “Company”) was incorporated under the British Columbia Business Corporations Act on December 17, 2009. The Company’s shares are listed on the TSX Venture Exchange (“TSXV”). The Company’s head office is located at 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 $5,002,264 at June 30, 2020, 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 financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

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 and commenced trading on the TSXV under the symbol “TCC.H”. The Company’s secured convertible debentures commenced trading on the TSXV under the symbol “TCC.DB” and “TCC.DB.A”.

The Company announced that the Canadian Securities Exchange (the “CSE”) has approved the listing of the Company’s common shares, 9% Series A convertible debentures and 8% Series B convertible debentures (collectively, the “Securities”) on the CSE (the “CSE Listing”). The Securities commenced trading on the CSE at market open on August 28, 2020 under the symbols “TCC”, “TCC.DB” and “TCC.DB.A” respectively. In connection with the CSE Listing, the Company delisted the Securities from the TSX Venture Exchange (the “TSXV”) at the close of market on August 27, 2020.

2. Significant accounting policies and basis of preparation

These unaudited condensed consolidated interim financial statements were authorized for issue on August 31, 2020 by the directors of the Company.

Statement of compliance with International Financial Reporting Standards

The unaudited interim consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. The accounting policies applied in these financial statements are consistent with those used in the Company's audited financial statements for the year ended March 31, 2020. There have been no changes from the accounting policies applied in the March 31, 2020 financial statements. The preparation of interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the related amounts of assets and liabilities, revenues and expenses. In management's opinion, all adjustments considered necessary for fair presentation have been included in these unaudited interim consolidated financial statements. Interim

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

results are not necessarily indicative of the results expected for the financial year. Annual results may differ from interim results. The significant judgments made by management applied in the preparation of these unaudited interim consolidated financial statements are consistent with those applied and disclosed in the Company's audited consolidated financial statements for the year ended March 31, 2020. For a description of the critical accounting estimates and assumptions, please refer to the Company's audited consolidated financial statements for the year ended March 31, 2020.

Property and 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 Mach 31, 2020, property and equipment consists of furniture and right of use assets which are amortized over their useful life estimated as follows.

Furniture and fixtures	straight line method over 5 years
Right of use assets	term of the lease

The depreciation expense for each period is recognized in the statement of comprehensive 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	**Percentage owned***	
	incorporation	**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 period ended June 30, 2020, the Company's subsidiary, TCC Management Inc, was inactive.

2. **Significant accounting policies and basis of preparation** (cont0

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.

Leases

IFRS 16 Leases

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control an identified asset for a period of time in exchange for consideration.

Leases of right-of-use assets are recognized at the lease commencement date at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, and otherwise at the Company's incremental borrowing rate. At the commencement date, a right-of-use asset is measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

Each lease payment is allocated between repayment of the lease principal and interest. Interest on the lease liability in each period during the lease term is allocated to produce a constant periodic rate of interest on the remaining balance of the lease liability. Except where the costs are included in the carrying amount of another asset, the Company recognizes in profit or loss (a) the interest on a lease liability and (b) variable lease payments not included in the measurement of a lease liability in the period in which the event or condition that triggers those payments occurs. The Company subsequently measures a right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses; and adjusted for any remeasurement of the lease liability. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term, except where the lease contains a bargain purchase option a right-of-use asset is depreciated over the asset's useful life.

(Expressed in Canadian Dollars)

3. Equipment

	Equipment	Right of use	Total
Cost	$	$	$
March 31, 2020	37,846	134,363	172,209
Additions	-	-	-
June 30, 2020	37,846	134,363	172,209
Amortization			
March 31, 2019	(3,451)	-	(3,451)
Charge for the period	(1,892)	(13,900)	(15,792)
June 30, 2019	(5,343)	(13,900)	(19,243)
March 31, 2020	(11,020)	(55,599)	(66,619
Charge for the period	(1,892)	(13,901)	(15,793)
June 30, 2020	(12,912)	(69,500)	(82,412)
Net book value			
March 31, 2020	26,826	78,764	105,590
June 30, 2020	24,934	64,863	89,797

On June 30, 2020, the balance of the lease liability is as follows:

	Lease liability
	$
Balance, April 1, 2020	78,143
Interest	1,464
Payments	(15,159)
Balance, June 30, 2019	64,448

	$
Short term	62,194
Long term	2,254
Balance, June 30, 2020	64,448

(Expressed in Canadian Dollars)

4. Loans

	June 30, 2020	March 31, 2020
Waiward loans		
May 18, 2017	$ 5,522,000	$ 5,522,000
June 26, 2017	1,488,000	1,488,000
July 19, 2017	730,000	730,000
	7,740,000	7,740,000
ABO loans		
March 2018	5,659,000	5,659,000
March 2018	-	1,300,000
July 2018	2,335,000	2,335,000
May 2019	2,428,000	2,248,000
June 2019	1,761,000	1,761,000
	13,483,000	13,483,000
	$ 19,923,000	$ 21,223,000

Waiward Loans

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, 2020 was $206,582 (2019 - $202,040), which was receivable on June 30, 2020 and $619,120 (2019 - $413,088) was interest accrued for payment in kind ("PIK"). The loan is secured by the Borrower's indirect equity interest in Waiward Steel.

ABO Loans

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 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.

(Expressed in Canadian Dollars)

4. Loans (cont'd

Interest earned in the three months ended June 30, 2020 was $302,911, which was receivable at June 30, 2020. The loan is secured by the borrower's indirect equity interest in Omni Health Investments Inc.

In December 2017 the Company agreed to loan the advance to ABO in a sidecar loan on the same terms as, and be subordinated to, the ABO Loan. The loan bears interest at the rate of 8.0% per annum, payable annually in cash until maturity on January 27, 2023. ABO repaid $200,000 of the loan in June 2019. Interest earned in the three months ended June 30, 2020 was $5,399 (2019 - $30,472). The receivable at June 30, 2020 was $Nil.

5. Accounts payable and accrued liabilities

	June 30, 2020	March 31, 2020
Accounts payable (Notes 6 and 7)	$ 604,838	$ 588,699
Accrued liabilities	22,000	22,000
	$ 626,838	$ 610,699

6. Related party transactions

Related party balances:

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

	June 30, 2020	March 31, 2020
CFO	(7,875)	(5,250)
CEO	3,390	3,390
	(4,485)	(1,860)

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

Key management personnel compensation

	Three months ended	
	June 30, 2020	June 30, 2019
CFO – Professional fees	$ 7,875	$ 7,875

7. Debentures

	June 30, 2020	March 31, 2020
Balance, beginning	$ 19,354,045	$ 15,085,969
Proceeds from issuance of debentures	-	4,189,000
Deferral of financing costs	(13,748)	(120,525)
Interest expense	417,810	1,605,647
Interest paid or payable	(417,810)	(1,605,647)
Accretion of financing costs	52,604	199,601
	$ 19,392,901	$ 19,354,045

7. Debentures (cont'd)

The Debenture Offering

On March 7, 2017, the Company filed and obtained a receipt for a preliminary prospectus with security regulatory authorities for a proposed public offering of secured convertible debentures (the "Debentures") priced at $1,000 per Debenture (the "Debenture Offering Price"). The Debenture Offering closed for aggregate gross proceeds of $7,740,000. The debenture was loaned to Waiward (Note 4). Effective on October 26, 2017, the Debentures commenced trading on the TSXV under the symbol "TCC.DB" (Note 1).

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% per annum, payable quarterly in cash.

During the three months ended June 30, 2019, the Company has recognized as accretion expense of $32,068 (2019 - $41,976 related to this Debenture Offering. During the three months ended June 30, 2020, interest expense of $174,150 was accrued (2019 - $174,150) and is included in accounts payable.

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.

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 secured convertible debentures (the "Omni Debentures") priced at $1,000 per Debenture. The net proceeds of the Omni Debenture Offering will be used to fund the Omni Loan, as described below. The Debenture Offering closed in four tranches for aggregate gross proceeds of $12,183,000, of which the third and fourth tranches were closed during the year ended March 31, 2020 for gross proceeds of $2,428,000 and $1,761,000, respectively. Effective October 4, 2018, the Debentures commenced trading on the TSXV under the symbol TCC.DB.A.

The maturity date of the Omni Debentures will be January 27, 2023 and bear interest at the rate of 8.0% per annum, payable quarterly in cash.

During the three months ended June 30, 2020, the Company incurred financing costs of $Nil (2019 - $97,945) related to these Omni Debentures. During the three months ended June 30, 2020, interest expense of $243,660 (2019 - $178,067) was accrued, which is included in accounts payable (Note 5).

7. Debentures (cont'd)

Commencing two years from closing, the outstanding principal amount of the Omni Debentures may be converted, at the option of the holder, into common shares of the Company at a conversion price equal to the greater of: (i) 95% of the volume weighted average trading price of the common shares for the 30 trading day period ending three business days before the conversion date, and (ii) $1.25 per common share, provided that, unless the conversion is being effected in connection with a redemption by the Company, no more than 25% of the aggregate principal amount of Debentures held by a holder may be converted in any 180-day period.

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

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

8. Share capital

Authorized share capital

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

Issued share capital

At June 30, 2020 there were 18,761,951 (2019 - 11,638,107) issued and fully paid common shares.

During the three months ended June 30, 2020, the Company issued 3,281,250 Common shares at $0.40 on conversion of 3,281,250 preferred shares.

During the three months ended June 30, 2020, the Company issued 3,811,344 Common shares at $0.05 as settlement of $190,567 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.

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

***Preferred shares** (cont'd)*

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.

On May 11, 2020, the Company extended the conversion date of the preferred shares. On June 19, 2020, the Company converted 3,281,250 preferred shares to 3,281,250 common shares in accordance with the special rights and restrictions attached to the Series A Shares.

In June 2020 the Company has entered into agreements with the holders of preferred shares to settle dividends owing in the aggregated amount of $190,567 by issuing 3,811,344 common shares at $0.05 per common share of the Company, which was approved by the TSXV.

On June 11, 2020, the Company entered into a debt settlement and share transfer agreement with Hillcore Diversified Industries Ltd. Hillcore was indebted to the Company pursuant to a loan that Hillcore was assigned by ABO in the principal amount of $1,300,000 and $279,649 on account of interest. Hillcore also owned 3,437,500 Series A Shares and was owed $337,213 in dividends on such Series A Shares by the Company. Pursuant to the settlement agreement, Hillcore and the Company agreed to fully and finally settle the principal of the loan against the transfer of Hillcore's Series A Shares to the Company and to fully and finally settle the interest on the loan payable by Hillcore to the Company by setting this amount off against the dividends payable by the Company to Hillcore on the Series A Shares.

As at June 30, 2020, there are dividends payable on the preferred shares of $Nil (March 31, 2020 - $547,250).

Basic and diluted loss per share

The calculation of basic loss per share for the three months ended June 30, 2020 was based on the income attributable to common shareholders of $159,180 (2019 - $92,177) and the weighted average number of common shares outstanding of 12,107,875 (2019 - 11,638,107).

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.

(Expressed in Canadian Dollars)

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

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, 2020, the Company recognized share-based payment of $8,271 (2019 -$24,790) on vested options.

The following summarizes information about stock options outstanding at June 30, 2020:

Expiry date	Exercise price	Options outstanding	Options exercisable	Weighted average remaining contractual years
March 29, 2022	$ 0.25	1,160,000	773,334	1.75
Total		1,160,000	773,334	1.75

8. 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.

9. Financial risk and capital management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk

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

Liquidity risk

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

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

Foreign exchange risk

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

Interest rate risk

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

Capital Management

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

(Expressed in Canadian Dollars)

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

Classification of financial instruments

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

	June 30,2020	March 31, 2020
FVTPL:		
Cash	$ 63,819	$ 63,848
Amortized costs:		
Interest receivable	787,966	781,291
PIK interest receivable	619,120	567,482
Loans receivable	19,923,000	21,223,000
	$ 21,115,432	$ 22,635,621

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

	June 30, 2020	March 31, 2020
Amortized costs:		
Accounts payable	$ 604,838	$ 588,699
Dividends payable	-	547,250
Debentures	19,392,901	19,354,045
	$ 19,997,739	$ 20,489,994

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.