Trichome FINANCIAL

Trichome Financial Corp.

(formerly 22 Capital Corp.)

Consolidated Condensed Interim Financial Statements

For the three months ended March 31, 2020 and March 31, 2019

(Expressed in Canadian Dollars)

Notice of No Auditor Review of Consolidated Condensed Interim Financial Statements

In accordance with National Instrument 51-102, the Company discloses that its external auditors have not reviewed the accompanying consolidated condensed interim financial statements.

Trichome FINANCIAL CORP.

Consolidated Condensed Interim Financial Statements
For the three months ended March 31, 2020 and March 31, 2019

TABLE OF CONTENTS

TRICHOME FINANCIAL CORP.

Consolidated Condensed Interim Statements of Financial Position

(Unaudited - Expressed in Canadian Dollars)

	Notes	**As at March 31, 2020**	As at December 31, 2019
ASSETS			
Current			
Cash and cash equivalents		**$ 11,661,703**	$ 20,887,704
Amounts receivable		**118,744**	109,969
Investment	4	**244,405**	-
Due from related parties	6	**-**	23,583
Prepaids and other assets		**375,677**	182,418
Loans receivable	3	**8,187,706**	1,964,538
Total current assets		**20,588,235**	23,168,212
Non-current			
Derivative assets	4	**248,199**	455,064
Investment	4	**-**	226,368
Intangible asset	5	**32,346**	19,633
Loans receivable	3	**7,755,064**	5,058,679
Total non-current assets		**8,035,609**	5,759,744
Total assets		**28,623,844**	28,927,956
LIABILITIES			
Current			
Amounts payable and accrued liabilities	7	**1,632,135**	1,264,160
Due to related parties	6	**15,442**	-
Deposits	3	**31,445**	78,977
Total liabilities		**1,679,022**	1,343,137
SHAREHOLDERS' EQUITY			
Share capital	8	**33,850,039**	33,850,039
Contributed surplus	8	**545,297**	459,203
Share-based reserve	8	**1,360,523**	1,281,668
Accumulated deficit		**(8,811,037)**	(8,006,091)
Shareholders' equity		**26,944,822**	27,584,819
Total liabilities & shareholders' equity		**$ 28,623,844**	$ 28,927,956

Commitments and contingencies (Note 12)

Subsequent events (Note 13)

The accompanying notes are an integral part of these consolidated condensed interim financial statements.

Approved on behalf of the Board:

/s/"Michael Ruscetta" — Director

/s/"Marissa Lauder" — Director

TRICHOME FINANCIAL CORP.

Consolidated Condensed Interim Statements of Net Loss and Comprehensive Loss

(Unaudited - Expressed in Canadian Dollars)

	Notes	For the three months ended March 31, 2020	March 31, 2019
Interest revenue		**$ 635,079**	$ 57,262
Operating expenses			
General and administrative	9	**826,192**	351,876
Share-based compensation	8	**164,949**	242,729
Expected credit loss	3	**221,326**	9,758
		1,212,467	604,363
Other expenses (income)			
Accretion expense	8	**-**	443,048
Changes in fair value of derivative assets and investments	4	**394,065**	(19,658)
Gain on settlement of loan receivable	3	**-**	(136,562)
Costs incurred to list on stock exchange		**-**	85,625
Foreign exchange gain		**(166,507)**	-
		227,558	372,453
Net loss and comprehensive loss		**$ (804,946)**	$ (919,554)
Earnings per share, basic and diluted			
Net loss per share:		**$ (0.03)**	$ (0.13)
Weighted average number of outstanding common shares		**25,074,828**	6,960,000

The accompanying notes are an integral part of these consolidated condensed interim financial statements.

TRICHOME FINANCIAL CORP.

Consolidated Condensed Interim Statements of Cash Flows

(Unaudited - Expressed in Canadian Dollars)

	Notes	For the three months ended March 31, 2020	March 31, 2019
CASH FLOWS USED IN OPERATING ACTIVITIES			
Net loss for the period		**$ (804,946)**	$ (919,554)
Items not affecting cash:			
Accretion expense	8	**-**	443,048
Non-cash interest revenue	3	**(406,835)**	(20,629)
Foreign exchange revaluation of loan receivable		**(163,399)**	-
Change in fair value of derivative assets and investments	4	**394,065**	(19,658)
Gain on settlement of loan		**-**	(136,562)
Share-based compensation	8	**164,949**	242,729
Expected credit loss on accounts receivable		**12,329**	-
Expected credit loss on loaned funds	3	**208,997**	9,758
		(594,840)	(400,868)
Changes in non-cash items relating to operations:			
Increase in amounts receivable		**(21,104)**	(20,667)
Increase in prepaid expenses and other current assets		**(193,259)**	(17,646)
Increase in amounts payable and accrued liabilities		**367,975**	292,343
Settlement of Pure Alpha loan	3	**50,000**	-
Release of security deposit on Pure Alpha loan settlement	3	**(50,000)**	-
Increase in due to related parties	6	**39,025**	127,417
Increase in deposits		**2,468**	-
		195,105	381,447
Changes in cash items relating to operations:			
Advances of loaned funds (inclusive of amounts allocated to derivative assets and investments on initial recognition and transaction costs)	3,4	**(8,813,553)**	(4,533,381)
Repayment of loaned funds	3	**-**	589,999
		(8,813,553)	(3,943,382)
Cash outflows used in operating activities		**(9,213,288)**	(3,962,803)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Increase in intangible assets	5	**(12,713)**	-
Cash outflows used in investing activities		**(12,713)**	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from deposit on shares	8	**-**	3,512,741
Cash inflows from financing activities		**-**	3,512,741
DECREASE IN CASH		**(9,226,001)**	(450,062)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		**20,887,704**	13,810,095
CASH AND CASH EQUIVALENTS, END OF PERIOD		**$ 11,661,703**	$ 13,360,033

The accompanying notes are an integral part of these consolidated condensed interim financial statements.

TRICHOME FINANCIAL CORP.

Consolidated Condensed Interim Statements of Shareholders' Equity

(Unaudited - Expressed in Canadian Dollars)

	Number of shares *		Share capital		Contributed Surplus		Share-based reserve		Accumulated deficit		Total Shareholders' Equity
Balance at January 1, 2019	**6,960,000**	**$**	**335,000**	**$**	**162,549**	**$**	**531,044**	**$**	**(2,212,340)**	**$**	**(1,183,747)**
Comprehensive loss for the period	-		-		-		-		(919,554)		(919,554)
Share-based compensation for the period	-		-		242,729		-		-		**242,729**
Vested and transferred to share-based reserve	-		-		(79,044)		79,044		-		-
Balance at March 31, 2019	6,960,000		335,000		326,234		610,088		(3,131,894)		(1,860,572)
Comprehensive loss for the period	-		-		-		-		(4,874,197)		(4,874,197)
Share-based compensation for the period	-		-		748,948		-		-		748,948
Vested share-based compensation	-		-		(671,580)		671,580		-		-
Conversion of series A preferred shares on close of Trichome's RTO	9,513,902		16,332,200		-		-		-		16,332,200
Shares issued for previously subscribed shares	7,849,706		16,484,383		-		-		-		16,484,383
Shares issued in the reverse-takeover of 22 Capital Corp.	751,220		1,577,564		55,601		-		-		1,633,165
Share issuance costs	-		(879,108)		-		-		-		(879,108)
Balance as at December 31, 2019	25,074,828	$	33,850,039	$	459,203	$	1,281,668	$	(8,006,091)	$	27,584,819

	Number of shares		Share capital		Contributed Surplus		Share-based reserve		Accumulated deficit		Total Shareholders' Equity
Balance at January 1, 2020	**25,074,828**	**$**	**33,850,039**	**$**	**459,203**	**$**	**1,281,668**	**$**	**(8,006,091)**	**$**	**27,584,819**
Comprehensive loss for the period	-		-		-		-		(804,946)		(804,946)
Share-based compensation for the period	-		-		164,949		-		-		164,949
Vested share-based compensation	-		-		(78,855)		78,855		-		-
Balance as at March 31, 2020	**25,074,828**	**$**	**33,850,039**	**$**	**545,297**	**$**	**1,360,523**	**$**	**(8,811,037)**	**$**	**26,944,822**

* Number of shares is inclusive of the 3:1 share split, and has been applied retrospectively for the January 1, 2019 comparative figures.

The accompanying notes are an integral part of these consolidated condensed interim financial statements.

1. Description of the business

Trichome Financial Corp. (the "Company" or "Trichome" or "Trichome Financial"), formerly 22 Capital Corp. was incorporated pursuant to the provisions of the *Business Corporations Act* of Ontario on January 4, 2017. The Company is located at 150 King Street West, Suite 200, Toronto, Ontario, Canada. On October 4, 2019, in connection with Trichome Financial Corp.'s reverse takeover ("RTO") of 22 Capital Corp., the Company completed a 3:1 share split.

Trichome Financial is a specialty finance company focused on providing credit-based capital solutions to the global legal cannabis market. Trichome Financial provides customized financing solutions across the industry value chain to support growth, capital expenditures, mergers and acquisitions, working capital and other needs. Transactions are typically structured to earn contractual cash flows, obtain potential equity positions and ensure return of capital.

The Company incorporated Trichome Financial Cannabis Private Credit GP Inc. (the "GP") and Trichome Financial Cannabis Manager Inc. as wholly owned subsidiaries and consolidated the financial statements of these entities. The entities were formed in preparation for the opening of an alternative investment fund. The Company formed a Limited Partnership between Trichome Financial Cannabis Private Credit LP (the "Fund"), which is an unconsolidated entity.

On December 11, 2019, the Company incorporated Trichome Asset Funding Corp. ("Trichome Asset Funding"). The entity was formed specifically for the purpose of managing Trichome Financial's factoring arrangements. Trichome Asset Funding is a 100% wholly owned subsidiary of the Company and results are consolidated with that of the Company's as part of the financial reporting process.

2. Significant accounting policies

Statement of compliance with International Financial Reporting Standards

These unaudited consolidated condensed interim financial statements (the "Financial Statements") have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee applicable to the preparation of the Financial Statements.

These Financial Statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting.* The unaudited Financial Statements do not include all of the information and disclosures required in the Company's annual financial statements and should be read in conjunction with the Company's audited annual financial statements for the year ended December 31, 2019.

Basis of presentation

These Financial Statements have been prepared by management on a historical cost basis using the accrual basis of accounting, except for the revaluation of certain financial assets and liabilities to fair value, including derivative assets, investments, and certain loans receivable.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether the price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Company takes into account the characteristics of the asset or liability that market participants would take into consideration when pricing the asset or liability at the measurement date.

The currency of presentation for these Financial Statements is the Canadian dollar, which is also the functional currency of the Company. At the end of each reporting period, the Company fair values items that are denominated in currencies other than the Company's reporting currency. Changes in fair values are recorded in "Other expenses (income)".

During the three months ended March 31, 2020, the Company re-classified certain prior period balances to conform to the current period presentation.

The Financial Statements were approved by the Company's Board of Directors and authorized for issue on May 28, 2020.

Significant accounting judgments and estimates

The preparation of these Financial Statements requires management to make certain estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements. These estimates, judgements, and assumptions will also affect the disclosure of contingent liabilities at the date of the Financial Statements and reported amounts of revenues and expenses during the reporting periods. Actual outcomes could differ from these estimates. These Financial Statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the Financial Statements and may require accounting adjustments based on future occurrences.

Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant estimates include the valuation of loans receivable, expected credit losses, impairment of loans, key inputs used in the application of the Black-Scholes option pricing model used to determine the value of derivative assets, as well as any expected credit losses associated with lending arrangements.

Expected credit losses ("ECLs") and impairment of loans

In accordance with IFRS 9 *Financial Instruments* ("IFRS 9"), accounting for impairment losses on loans and other debt instruments is based on a forward-looking expected credit loss model. Under this model, the Company is required to assess the need for an allowance for ECLs for all loans and other debt instruments which are classified at either amortized cost or Fair Value Through Other Comprehensive Income ("FVTOCI"). The allowance calculated by the Company is based on a probability-weighted amount that has been determined through evaluating the following items:

- Past events which affect the historical collectability of the Company's loans
- Time value of money
- Macroeconomic indicators which may not be directly attributable to the borrower but could have an impact on the borrower's business
- Financial forecasts and future business plans of the borrower

At each reporting date, Management uses significant judgment in assessing whether there has been a significant increase in credit risk since initial recognition by assessing the risk of default occurring over the remaining expected life of the loan. This assessment requires Management to make considerable estimates, which include, the assessment of borrower-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking macro-economic factors, management judgement, delinquency, and monitoring.

Valuation of loans receivable

The Company's financial assets are generally classified at initial recognition as either: (i) fair value through profit or loss ("FVTPL"), or (ii) amortized cost, based on the contractual cash flow characteristics of the financial assets and the business model under which the financial assets are managed.

For loans measured at amortized cost or at FVTPL under IFRS 9, judgment is used by management in determining the fair value of the loan at inception of the lending arrangement and at each reporting period. The fair value of the loan at any given point in time is calculated based on the present value of the future loan payments, discounted using an interest rate that would be charged by another market participant for a financing arrangement with similar characteristics. Judgment is used by management in determining what the interest rate would be for sourcing a similar financing arrangement in the market. This can lead to materially different fair value gains or losses on loans held at FVTPL.

Loans subsequently measured at amortized cost are recorded using the effective interest rate method and are impacted by fair value estimates of embedded derivative assets, embedded royalty agreements, transaction costs, set-up fees, original issue discounts ("OID"), and other items.

Fair value estimates of derivative assets

The Company holds derivative assets, which are typically warrants, in both publicly-traded and privately-held companies. Certain of these investments do not include Level 1 inputs, and thus, the Company relies on Level 2 and 3 inputs in determining the fair value of these derivative assets. For investments in which Level 2 inputs are available, the Company relies on recently completed equity transactions, or other methods of implied fair value, in determining the fair value of the individual common share underlying the derivative asset. Significant judgment is required by Management in assessing if a recent equity transaction is considered a reasonable proxy for the valuation. For investments in which both Level 1 and 2 inputs are not available, the Company relies on internal valuations to perform supporting valuations. These valuations can be based on discounted cash flows, capitalized EBITDA or cashflows, as well as comparable public company multiples in the market. Through these valuations, Management uses significant judgment which includes estimating forecasted cashflows, estimating discount rates, and selecting comparable public companies.

Management uses the Black-Scholes option pricing model in determining the fair value of most derivatives, such as warrants, and therefore inputs such as volatility, risk-free rate, and expected life of the derivative are used to determine the fair value of the derivative asset. Significant judgement is required in estimating the volatility used in the Black-Scholes option pricing model when determining the fair value of the derivatives.

Derecognition and modifications of loans

Management uses judgment in determining whether the change in the terms of the lending arrangement qualifies as a derecognition of the loan or a modification of the loan under IFRS 9. Depending on management's judgment, the manner in which the loan is treated, be it a modification or a settlement, can result in materially different results in interest revenue or other income. If there is a modification in a lending arrangement subsequent to initial recognition, Management also reassesses the need to modify the expected credit loss associated with the loan.

3. Loans receivable

		March 31, 2020		December 31, 2019
James E. Wagner Cultivation Corporation	**$**	**6,366,455**	$	5,359,429
Pure Alpha Holdings Inc.		**-**		50,000
Good Buds Company International Inc.		**2,084,449**		1,942,238
Heritage Cannabis Holdings Corp.		**4,315,111**		-
Hello Cannabis Corporation		**928,608**		-
Cresco Labs Inc.		**2,785,594**		-
		16,480,217		**7,351,667**
Less: total expected credit loss		**(537,447)**		(328,450)
		15,942,770		**7,023,217**
Non-current portion		**(7,755,064)**		(5,058,679)
		8,187,706		**1,964,538**

Maturity profile of loans

Pure Alpha Holdings Inc.

On January 17, 2019, the Company signed a promissory note with Pure Alpha Holdings Inc. ("Pure Alpha"), an Ontario licensed cannabis company, totalling $50,000, with a one-year maturity. The financing was interest free and could be repaid by Pure Alpha at any time throughout the duration of the loan without penalty. The note was guaranteed by Superette Inc. ("Superette"), a retail licence holder in Ontario, Canada. As part of the arrangement, Superette has advanced $50,000 to Trichome Financial, which was recorded as a security deposit.

On February 19, 2020, the Company settled its outstanding loan with Pure Alpha. The loan was settled by Trichome Financial taking ownership of the $50,000 deposit obtained from Pure Alpha's guarantor, Superette, on issuance of the loan.

James E. Wagner Cultivation Corporation

On February 20, 2019, the Company signed a senior secured term loan with James E. Wagner Cultivation Corporation ("JWC") to loan $3.5 million (the "Initial Loan"). Following the Initial Loan, the lending arrangement was amended ("Amendment 1" or "follow-on loan") on November 6, 2019. In this follow-on loan, the Company committed to two additional tranches of funding ("Tranche 1" and "Tranche 2" respectively).

a. The Initial Loan was issued at a face value of $3.5 million, with a two-year maturity, and annual interest of 9.25%. The Initial Loan is secured by first ranking perfected security interest in the assets of JWC and is guaranteed by each of its subsidiaries. The Company also received 291,667 common share purchase warrants (Note 4) of JWC upon entering into this arrangement.

   In accordance with IFRS 9, the Initial Loan was recorded on initial recognition at its fair value of $3,135,474. The fair value was based on a face value of $3.5 million less the warrants, set-up fee, and original issue discount. The loan is recorded at amortized cost, with an effective annual interest rate of 15.3%, inclusive of the fair value of warrants at initial recognition. Excluding the fair value of warrants and capitalized transaction costs, the loan has an effective annual interest rate of 13.9%. During the three months ended March 31, 2020, the Company recorded interest revenue on the loan of $125,301 (2019 - $39,475).

b. Tranche 1 of Amendment 1 was issued at a face value of $2.85 million on November 6, 2019, with a two-year maturity and annual interest of 9.25%. The proceeds were to be used to fund JWC's capital expenditures and for working capital purposes.

   Tranche 1 is secured by a perfected first lien on all of JWC's current and future tangible and intangible assets (including a share pledge from all subsidiaries of JWC). This arrangement is in line with the security noted on the Initial Loan of $3.5 million. Upon closing of Tranche 1, the Company received a total of 984,208 common shares of JWC as well as 1,696,385 common share purchase warrants (Note 4).

In addition to the Amendment 1 loan arrangement, Trichome Financial and JWC entered into a Receivables Financing Facility, whereby JWC may elect to finance certain qualified receivables through recourse factoring with the Company. Total availability under the Facility is initially capped at $5.0 million and the financing of any receivables under the agreement will be subject to the Company's sole discretion.

In accordance with IFRS 9, Tranche 1 was recorded on initial recognition at its fair value of $2,038,468. The fair value was based on a face value of $2.85 million less the fair value of warrants, fair value of common shares, set-up fee, original issue discount, as well as capitalized legal fees. The loan is recorded at amortized cost, with an effective annual interest rate of 28.0%, inclusive of the fair value of warrants and common shares at initial recognition and 13.3% exclusive of the fair value of warrants and common shares at initial recognition. During the three months ended March 31, 2019, the Company recorded interest revenue on Tranche 1 of $147,415.

c. On February 19, 2020, the Company issued Tranche 2 of Amendment 2 with a face value of $1.15 million, an annual interest rate of 9.25%, and maturing on November 6, 2021. On initial recognition the loan was recorded at fair value of $862,938 and was a Stage 2 loan under IFRS 9. This fair value was based on a face value of $1.15 million net of an original issue discount, a debt service reserve account, transaction costs, and 1,052,500 JWC common shares issued to the Company as part of the lending arrangement (Note 4).

   In accordance with IFRS 9, the loan was recorded at amortized cost subsequent to initial recognition. The loan is recorded with an effective annual interest rate of 27.7%. Excluding the debt service reserve account, transaction costs, and the 1,052,500 JWC common shares issued as part of the Tranche 2 lending arrangement, the loan has an annual effective interest rate of 12.5%. During the three months ended March 31, 2020, the Company recorded interest revenue of $27,366.

On April 1, 2020, JWC filed for creditor protection under the *Companies' Creditors Arrangement Act ("CCAA")* (Note 13) and was moved to a Stage 3 loan on March 31, 2020 (refer to *Expected Credit Losses* section). As a result, the loan to JWC was recognized as a current asset, as the Company plans to realize on the loan within 12 months through the CCAA process.

Good Buds Company International Inc.

On August 20, 2019, the Company entered into an agreement to provide a $2.35 million non-revolving loan to Good Buds Company International Inc. ("Good Buds"). The financing was used for expansion and construction of Good Buds' cultivation facility as well as for repaying outstanding shareholder loans. Good Buds has the option to prepay the entire balance of the loan, including all accrued and unpaid interest at the time, prior to maturity of the arrangement. If Good Buds were to exercise this prepayment option, it would be required to pay a prepayment premium, which is based on the lesser of six months' interest payable under the arrangement or the amount of remaining number of months' interest to the maturity date.

The loan matures on September 1, 2020 and bears interest at a rate of 11.5% per annum. Good Buds has the ability to request an increase in the value of the loaned funds at any time, prior to maturity of the arrangement, up to a maximum of $2.5 million in additional funding and subject to approval of the Company. In connection with the lending arrangement, the Company was issued 950,000 common share purchase warrants of Good Buds.

In accordance with IFRS 9, the loan was recorded on issuance at fair value, with a principal value of $2.35 million, net of an original issue discount, transaction fees, an upfront lump sum payment of the aggregate monthly interest payments over the term of the loan, and the fair value of the warrants (Note 4). The loan was subsequently recorded at amortized cost, with an effective interest rate of 28.7%, inclusive of the fair value of warrants issued on initial recognition. Excluding the fair value of warrants and transaction related costs, the loan has an effective annual interest rate of 17.5%. The loan was secured by all current and future acquired property, assets, and undertakings of the borrower and the guarantors.

For the three months ended March 31, 2020, the Company earned interest revenue of $142,211 on the loan (2019 – Nil).

Heritage Cannabis Holdings Corp.

On January 30, 2020, Trichome Financial entered into a senior secured term loan with Heritage Cannabis Holdings Corp. (“Heritage”). Trichome Financial agreed to advance up to $6.7 million by way of two tranches ($4.875 million for Tranche 1 and $1.825 million for Tranche 2), where the second tranche would not be advanced until certain conditions are met. The loan is secured by all current and future assets, property, and undertaking of all obligors listed in the security agreement.

The loan is for a period of two years and carries an interest rate of 9.5% per annum, payable monthly. Tranche 1 of the loan was issued on January 30, 2020, net of a set-up fee, an original issue discount, and an interest reserve account equal to nine months of interest payments. Upon the completion of certain conditions, Tranche 2 may be issued net of an original issue discount on the face value of Tranche 2 and an interest reserve account totalling a year of interest payments.

Included in the loan arrangement with Heritage is a voluntary prepayment feature which allows Heritage to repay the loan in whole or in part, upon five business days’ written notice to Trichome Financial. Any partial prepayment shall be in a minimum amount of $500,000. As part of the voluntary prepayment there is a prepayment premium paid by Heritage.

After issuance of Tranche 1, but before maturity of the loan, Heritage can request an increase in the loaned funds by an additional $2.3 million. Trichome Financial will assess the request at the time, if any.

In accordance with IFRS 9, the loan was recorded at fair value on initial recognition of $4,218,170, which was net of a set-up fee, an interest reserve account equal to nine months of interest payments, an original issue discount, and certain transaction costs. Subsequent to initial recognition, the loan was recorded at amortized cost. The loan was recorded with an effective annual interest rate of 13.7%. Excluding the related transaction costs, the loan has an annual effective interest rate of 14.6%. For the three months ended March 31, 2020, the Company recorded interest revenue of $96,941.

Cresco Labs Inc.

On January 30, 2020, as a syndicate member, Trichome Financial entered into a senior secured term loan with Cresco Labs Inc ("Cresco"). The syndicated loan was for aggregate proceeds of US$100 million, of which US$2 million was advanced by Trichome Financial, gross of a set-up fee.

The funds advanced to Cresco by the syndicate members will be held in a reserve account and are to be used to fund permitted acquisitions and investments, as defined in the lending arrangement.
The loan is for a term of 18 months, with an annual interest rate of 12.7%. Interest payments are due quarterly, with principal due at maturity of the loan.

In accordance with IFRS 9, the loan was recorded at fair value on initial recognition of $2,617,482. Excluding the set-up fee, the loan has an annual effective interest rate of 14.8%. Subsequent to initial recognition, the loan was recorded at amortized costs. For the three months ended March 31, 2020, the Company recorded interest revenue of $61,630.

2673943 Ontario Inc. ("Hello Cannabis")

On February 28, 2020, the Company entered into a loan agreement with Hello Cannabis. The senior secured term loan has a face value of $1.0 million, with the ability to increase the loan up to an additional $1.25 million. Upon closing, the Company advanced $1.0 million to Hello Cannabis, gross of a set-up fee and interest reserve account, to fund capital expenditures as well as inventory purchases. The Term Loan bears interest at a rate of 10.5% with a maturity of 18 months.

In connection with the loan, the Company entered into a royalty agreement with Hello. The royalty agreement includes a monthly fee based on 2.0% of monthly gross revenues of Hello Cannabis' retail location in Sault Ste. Marie, Ontario. The royalty agreement is for a period of 18 months commencing the first month after the month in which the retail location is operational, and commenced in April 2020. The loan is secured by a first-ranking priority of all shares in the capital of each guarantor, together with the share certificates. The loan is also guaranteed by some personal assets of the listed guarantors.

The loan was recorded at fair value on initial recognition of $909,727, which was net of a set-up fee and an interest reserve account equal to five months of interest payments. Subsequent to initial recognition, the loan was recorded at fair value through profit and loss ("FVTPL"). The measurement of the loan as FVTPL is due to the fact that the monthly royalty interest payments, which are based on 2% of gross sales for the retail location, are considered variable interest payments and thus do not meet the *Simply Payments of Principal and Interest ("SPPI")* requirements under IFRS 9 to be recorded at amortized cost. The loan was recorded with an effective annual interest rate of 23.6%. Excluding the value of the royalty agreement and transaction costs, the loan has an annual effective interest rate of 13.1%. For the three months ended March 31, 2020, the Company recorded interest revenue of $18,881.

There was no fair value gain or loss recorded on the loan for the three-month period ended March 31, 2020.

Certain potential borrowers have contributed funds towards due diligence deposits related to legal fees totaling $31,445 at March 31, 2020 (2019 - $28,977). Undrawn deposits are refundable to potential borrowers and are recorded as a liability.

Expected Credit Losses

As at March 31, 2020 the allowance for ECLs was $537,447 (2019 – $9,758).

The loans to Good Buds, Heritage, and Cresco were classified as Stage 1 loans in the three-stage ECL model under IFRS 9. Under Stage 1, the expected credit loss is based on the expected loss from default on the cash inflows over the next 12 months of the loan at each reporting date.

Loans to James E. Wagner Cultivation Corporation were reclassified as Stage 3 on March 31, 2020, from Stage 2 at December 31, 2019, in connection with the borrower's filings under CCAA. Under Stage 3, the expected credit loss is based on the expected loss from default on the lifetime cash inflows of the loan and includes any advances that the Company is expecting to issue to the borrower in the future over the remaining life of the loan.

4. Derivative assets and investments

The fair value of the derivative assets and investments as at March 31, 2020 and December 31, 2019 are as follows:

		Inputs to Black-Scholes Models							
Derivatives	**Number**	**Exercise price**	**Share price**	**Life (years)**	**Volatility**	**Risk-free Rate**	**Fair Value / Warrant**	**Fair Value Gain/(Loss)**	**Total Value**
Value as at January 1, 2018	-	$ -	$ -	-	-	-	$ -	$ -	$ -
180 Smoke Inc. warrants	601,266	0.39	0.35	0.08	64.59%	1.50%	0.01	7,129	7,129
180 Smoke Inc. warrants	858,951	0.39	0.35	0.08	64.59%	1.50%	0.01	10,185	10,185
Value as at December 31, 2018	1,460,217							$ 17,314	$ 17,314
180 Smoke Inc. warrants	-		-	-	-	-	-	(7,129)	-
180 Smoke Inc. warrants	-		-	-	-	-	-	(10,185)	-
James E. Wagner Cultivation Corporation warrants	291,667	0.80	0.23	1.14	82.19%	1.69%	0.01	(80,801)	3,725
James E. Wagner Cultivation Corporation warrants	1,696,385	0.42	0.23	1.85	87.16%	1.69%	0.07	(139,853)	114,717
C.G.S. Foods Inc. warrants & warrants receivable	12	65,000	65,000	4.21	17.37%	1.68%	11,110	13,870	133,320
Good Buds Company International Inc. warrants	950,000	0.34	0.34	2.64	85.86%	1.71%	0.18	(86,632)	167,601
MYM Nutraceuticals Inc. warrants	1,500,000	0.30	0.10	2.44	57.52%	1.71%	0.01	12,613	12,613
MYM Nutraceuticals Inc. warrants	2,500,000	0.30	0.10	2.58	57.52%	1.71%	0.01	(425,041)	23,088
Total derivatives as at December 31, 2019	**6,938,064**							**$ (723,158)**	**$ 455,064**
Investments									
James E. Wagner Cultivation Corporation common shares	984,208						$ 0.23	$ (147,631)	$ 226,368
Total shares as at December 31, 2019	**984,208**							**$ (147,631)**	**$ 226,368**
Total derivatives and investments								**$ (870,789)**	**$ 681,432**

		Inputs to Black-Scholes Models							
Derivatives	**Number**	**Exercise price**	**Share price**	**Life (years)**	**Volatility**	**Risk-free Rate**	**Fair Value / Warrant**	**Fair Value Gain/(Loss)**	**Total Value**
Value as at January 1, 2020	6,938,064							$ (723,158)	$ 455,064
James E. Wagner Cultivation Corporation warrants	291,667	$ 0.80	$ 0.12	-	83.09%	0.46%	$ -	$ (3,725)	$ -
James E. Wagner Cultivation Corporation warrants	1,696,385	0.42	0.12	-	84.41%	0.42%	-	(114,717)	-
C.G.S. Foods Inc. warrants & warrants receivable	12	65,000	65,000	3.96	79.87%	0.57%	12,188	12,933	146,253
Good Buds Company International Inc. warrants	950,000	0.18	0.18	2.39	98.63%	0.46%	0.100	(72,473)	95,128
MYM Nutraceuticals Inc. warrants	1,500,000	0.30	0.06	2.19	59.70%	0.46%	0.002	(10,315)	2,298
MYM Nutraceuticals Inc. warrants	2,500,000	0.30	0.06	2.33	59.70%	0.46%	0.002	(18,568)	4,520
Total derivatives as at March 31, 2020	**6,938,064**							**$ (206,865)**	**$ 248,199**
Investments									
James E. Wagner Cultivation Corporation common shares	1,052,500						$ 0.12	$ (78,937)	$ 126,300
James E. Wagner Cultivation Corporation common shares	984,208						0.12	(108,263)	118,105
Total shares as at March 31, 2020	**2,036,708**							**$ (187,200)**	**$ 244,405**
Total derivatives and investments								**$ (394,065)**	**$ 492,604**

The table below shows the sensitivity of certain key estimates used in the Black-Scholes option pricing model used to fair value derivative assets:

Derivatives	**Number of warrants**	**Volatility**				**Share price***			
		+5%	+10%	-5%	-10%	+5%	+10%	-5%	-10%
C.G.S. Foods Inc. warrants & warrants receivable	12	$ 5,693	$ 11,201	$ (5,876)	$ (11,930)	$ 7,313	$ 14,626	$ (7,312)	$ (14,625)
Good Buds Company warrants	950,000	3,814	7,510	(3,919)	(7,951)	4,760	9,517	(4,753)	(9,512)
MYM Nutraceuticals Inc. warrants	1,500,000	671	1,437	(577)	(1,058)	N/A			
MYM Nutraceuticals Inc. warrants	2,500,000	1,259	2,684	(1,094)	(2,016)	N/A			

**Only applicable in instances in which the company is privately held.*

180 Smoke

Upon settling the loan with 180 Smoke the Company recorded a loss of $17,314 on the unexercised common share purchase warrants of 180 Smoke, originally received when entering the lending arrangement on May 9, 2018.

James E. Wagner Cultivation Corporation

Upon entering the Initial Loan with JWC, 291,667 warrants were issued to the Company (Note 3). Subsequently, upon the issuance of the Tranche 1 loan (Note 3), Trichome Financial was issued an additional 1,696,385 common share purchase warrants of JWC. As part of the Tranche 1 lending arrangement, the Company also received 984,208 common shares of JWC. Finally, as part of the Tranche 2 loan (Note 3), the Company received 1,052,500 JWC common shares. For the period ended March 31, 2020, the JWC common share purchase warrants as well as the JWC common shares were reclassified from non-current to current assets, seeing as they were delisted shortly after March 31, 2020.

On April 1, 2020, JWC filed for creditor protection under the *Companies' Creditors Arrangement Act* (Note 13). As a result, JWC's common shares halted trading on the TSX Venture Exchange on April 7, 2020.

C.G.S. Food Inc. d/b/a Ganjika House

In connection with C.G.S Foods Facility B, Trichome Financial was issued common share purchase warrants of CGS as well as the right to receive a variable number of additional warrants.

Good Buds Company International Inc.

As part of the lending arrangement with Good Buds (Note 3), the Company received 950,000 common share purchase warrants. The warrants expire on August 20, 2022 and have an exercise price equal to the lesser of (1) $0.60 and (2) the lowest price below $0.60 at which Good Buds issues common shares or securities convertible into common shares. In the instance of a liquidity event for Good Buds, at a price per share less than 1.25x the exercise price or the adjusted exercise price, then the exercise price or adjusted exercise price of the warrants resets to 75% of the price per share. Given Good Buds is not a publicly traded company, the volatility used in the valuation model was based on the average volatility of comparable publicly traded companies in the cannabis industry.

MYM Nutraceuticals Inc.

Upon signing a term sheet with MYM in connection with the lending arrangement, the Company was issued 1,500,000 common share purchase warrants which expire on June 10, 2022. The warrants were to be returned to MYM if the Company decided not to advance funds under a definitive lending agreement, however, the Company would keep the warrants should MYM fail to enter into a definitive lending agreement with the Company. By closing the lending arrangement with MYM, the Company received an additional 2,500,000 common share purchase warrants, which expire on July 31, 2022.

5. Intangible asset

		March 31, 2020		December 31, 2019
Software	**$**	**32,346**	$	19,633
Total intangible asset	**$**	**32,346**	$	19,633

During the year ended December 31, 2019, the Company commenced the development of a software intangible asset to assist in the tracking of factoring arrangements. The costs directly attributable with the development of the software have been capitalized as an intangible asset in accordance with IAS 38 *Intangible Assets*. Amortization of the asset will commence when the asset is put into use and at that time it will be amortized on a straight-line basis over its expected useful life. As at March 31, 2020 the asset was still in the development stage and not yet put into use.

6. Related party balances and transactions

Prior to the RTO on October 4, 2019, the Company was a subsidiary of Origin House. All intercompany expenses were recorded as related party expenses and all balances due to or due from Origin House were recorded as due to or due from Trichome Financial's parent company. After completion of the RTO, Origin House held approximately 23% of common shares of the Company and all intercompany transactions were considered related party transactions. All balances owing to or due from Origin House at March 31, 2020, were recorded as due to or due from a related party and have been reclassified in the 2019 comparative period.

The Company recorded the following related party transactions during the three months ended March 31, 2020:

- The Company's employees were included in the Origin House benefits plan. During the three months ended March 31, 2020, $7,579 of benefits expense (2019 – $3,288), were reimbursed by the Company to Origin House.

- For the three months ended March 31, 2020, Origin House provided $30,655 in executive and administrative services (2019 – $31,644).

- Stock-based compensation expense for the three months ended March 31, 2020 of $791 was recorded by Origin House relating to an employee of the Company (2019 − $6,190).

- Origin House paid certain shared corporate expenses for the Company which were recorded as general and administrative expenses for the three months ended March 31, 2020, in the amounts of Nil (2019 – $15,487).

- For the three months ended March 31, 2020, Origin House paid Nil in professional fees for the Company which has been capitalized as part of one of the lending arrangements (2019 – $15,814).

As at March 31, 2020, the Company recorded a balance owing to related parties of $15,442 (2019 - receivable balance of $23,583) related to administrative services and the shared benefits plan. These transactions are in the normal course of operations and are measured at the exchange amounts agreed to by the related party.

Amounts not included in amounts due to related parties, but are related party transactions include:

- The Company recorded key management compensation in the form of share-based payments for the three months ended March 31, 2020 in the amounts of $90,129 (2019 - $7,926). The Company also recorded key management compensation in the form of salaries and benefits for the three months ended March 31, 2020 in the amount of $170,253 (2019 - $31,923).

- Origin House acquired 180 Smoke on February 19, 2019. As part of the acquisition, Origin House settled the Company's outstanding loan receivable on behalf of 180 Smoke. The Company received proceeds of $589,999 and recorded a gain on the settlement of the loan of $136,562 during the year ended December 31, 2019.

7. Amounts payable and accrued liabilities

		March 31, 2020		December 31, 2019
Trade payables	**$**	**470,880**	$	301,099
Accrued liabilities		**306,398**		292,689
DSRA obligations		**167,965**		131,813
Payroll and bonus accruals		**686,892**		538,559
	$	**1,632,135**	$	1,264,160

The Debt Service Reserve Account (the "DRSA") obligations are advances which have been held back by the Company when lending to a borrower. Included as a term in certain lending arrangements, borrowers are required to establish a blocked bank account with a financial institution. These blocked bank accounts are initiated to reduce the collection risk on a loan. If a borrower is unable to establish such an account with their financial institution prior to the funds being issued by the Company, the sum of money initially agreed upon between the Company and the borrower to be deposited into the blocked account or DSRA, will be held back by the Company at initiation of the loan. Once the account has been established and the borrower has deposited the required funds into the account, the Company will relieve the obligation and advance the held back funds to the borrower.

8. Share capital

<u>*Common shares*</u>

Authorized

As at March 31, 2020, the authorized share capital comprised an unlimited number of common shares. The common shares do not have a par value. All issued shares are fully paid.

Issued and outstanding

	Number of shares		Amount
Balance at January 1, 2019	**6,960,000**	**$**	**335,000**
Conversion of series A preferred shares on close of Trichome's RTO	9,513,902		16,332,200
Shares issued for series B subscription receipts	7,849,706		16,484,383
Shares issued for the reverse takeover of 22 Capital Corp.	751,220		1,577,564
Share issuance costs on RTO	-		(879,108)
Balance at December 31, 2019	**25,074,828**	**$**	**33,850,039**
Change in issued and outstanding shares	-		-
Balance at March 31, 2020	**25,074,828**	**$**	**33,850,039**

On September 18, 2017, at inception of the Company, 3,000,000 common shares were issued at $0.0017 per share. On March 12, 2018, additional common shares of 3,960,000 were issued, at $0.083 per share.

On October 4, 2019, the Company completed a reverse takeover of 22 Capital Corp. Immediately prior to this reverse takeover, Trichome Financial executed a 3:1 share split of its existing issued and outstanding common shares. The 1,000,000 common shares issued at inception of the Company and the 1,320,000 common shares issued on March 12, 2018 converted to an aggregate of 6,960,000 issued and outstanding common shares on completion of the 3:1 share split, without diluting the ownership interest of any individual shareholder.

As part of the RTO, Trichome Financial issued 751,220 common shares to the shareholders of 22 Capital for total proceeds of Nil and a fair value per share of $2.10. The issuance of these shares was accounted for as a transaction expense as part of the RTO, considering the RTO represented an amalgamation of the two companies, and did not qualify as a business combination under IFRS 3 – *Business Combinations*.

Additionally, upon completion of the RTO, the 3,171,301 Class A preferred shares, which were issued as part of a private placement which closed on September 5, 2018, converted into 9,513,902 issued and outstanding common shares of the Company. The $16,332,200 accreted value of the preferred shares, which is net of the original issuance costs, was reclassified from a liability balance to share capital upon completion of the RTO.

In leading up to the RTO, the Company issued subscriptions receipts as part of a Series B private placement, which represented 7,849,706 common shares, issued at a price of $2.10 per share. Upon completion of the RTO, these subscription receipts were converted into common shares and $16,484,383, was converted from share deposits to share capital. The $16,484,383, represents gross proceeds raised from the issuance of the subscription receipts, net of the issuance costs. The total funds raised in the Series B private placement was previously recorded as restricted cash until the RTO was completed, as the amounts were held in trust. This restriction was released upon the completion of the RTO on October 4, 2019.

As at March 31, 2020 the Company had 4,918,404 common shares held in escrow.

Loss per share

The basic Loss Per Share (the "LPS") has been calculated based on the following net loss attributable to ordinary shareholders and the weighted average number of common shares outstanding:

	Period ended	
	March 31, 2020	March 31, 2019
Net loss and comprehensive loss	**$ (804,946)**	$ (919,554)
Weighted average number of common share issued and outstanding:		
Issued and outstanding ordinary common shares at beginning of the period	**25,074,828**	6,960,000
Weighted average number of shares	**25,074,828**	6,960,000
Basic and diluted loss per share	**$ (0.03)**	$ (0.13)

The calculation of diluted net loss per share for the three months ended March 31, 2020 and March 31, 2019 excludes vested RSU's and vested share options because their effect would have been anti-dilutive.

Class A preferred shares and accretion expense

Trichome Financial issued 9,513,902 (based on 3:1 share split) Class A preferred shares as part of a private placement which closed on September 5, 2018, at $1.58 per share. Gross proceeds were $15.0 million, with issuance costs of $0.5 million. The shares were convertible to cash, at the option of the holder, for $1.72 per share should an initial public offering or a change in control not occur by September 5, 2019. As such, the Class A preferred shares were initially liability-classified on the Company's consolidated statement of financial position, and issuance costs were netted against the gross proceeds. At inception, the Class A preferred shares were recorded at $14,519,871. In connection with the RTO, the Class A preferred shares were reclassified to equity, upon conversion to common shares of the Company.

During the three months ended March 31, 2020 Nil accretion expense was recorded (2019 - $443,048) in connection with the liability-classified preferred shares.

Share-based compensation

The Company's Board of Directors approved an Equity Incentive Plan (the "share unit plan") as well as a separate Stock Option Plan (the "stock option plan") for its employees and directors effective October 8, 2019. The share unit plan is specifically for the issuance of performance and restricted share units ("PSUs" and "RSUs"), while the stock option plan is for the administration and issuance of stock options. Under the new plans, the maximum number of common shares issuable pursuant to this plan shall not exceed 5,014,996 in aggregate, less the number of common shares issuable pursuant to awards outstanding under the Company's other security-based compensation plans. The number of PSUs, RSUs, and stock options granted, and any applicable vesting conditions related to those share-based payments are determined at the discretion of the compensation committee of the Board of Directors. Share-based reserve represents RSUs and PSUs that have vested, for which common shares have not yet been issued.

The following tables summarize the activity of equity awards for the three months ended March 31, 2020:

RSUs	**March 31, 2020**			March 31, 2019		
	Amount	**Value per award**		Amount	Value per award	
Outstanding, beginning of period	**2,060,300**	**$**	**1.17**	1,475,300	$	0.85
Granted during the period	**-**		**-**	150,000		1.58
Forfeited during the period	**-**		**-**	-		-
Outstanding, end of period	**2,060,300**	**$**	**1.17**	1,625,300	$	0.92

As at March 31, 2020 a total of 1,098,950 RSUs have vested. The value of vested RSUs totalled $1,251,990, which has been recorded in share-based reserve, and unvested totalled $1,148,866. The awards vest one-third or one-quarter upon grant, and one-third or one-quarter annually thereafter. The fair value of RSUs is determined based on the most recent common share issuance price at the grant date, which is a Level 3 input for all RSUs issued to date, as the RSUs were issued prior to the RTO. For any RSUs issued post-RTO, the fair value of the RSUs is a Level 1 input.

During the three months ended March 31, 2020, the Company recorded share-based compensation expense related to RSUs of $164,926 (2019 - $241,229).

PSUs	**March 31, 2020**			March 31, 2019		
	Amount	**Value per award**		Amount	Value per award	
Outstanding, beginning of period	**630,000**	**$**	**0.08**	630,000	$	0.08
Granted during the period	**-**		**-**	-		-
Outstanding, end of period	**630,000**	**$**	**0.08**	630,000	$	0.08

As at March 31, 2020 all required performance milestones for the holders of the PSUs had been achieved, and all PSUs were vested. The total amount of the vested PSUs at March 31, 2020 was $52,500.

During the three months ended March 31, 2020, the Company recorded share-based compensation expense on the PSUs of Nil (2019 – $1,437).

Options	**March 31, 2020**			March 31, 2019		
	Number of options	**Weighted average exercise price**		Number of options	Weighted average exercise price	
Outstanding, beginning of period	**85,208**	**$**	**1.45**	15,000	$	1.58
Granted during the period	**-**		**-**	-		-
Outstanding, end of period	**85,208**	**$**	**1.45**	15,000	$	1.58
Exercisable at the end of period	**80,208**	**$**	**1.45**	5,000	$	1.58

The Company issued 70,208 stock options to the former shareholders of 22 Capital Corp., as part of the RTO on October 4, 2019. The options vested immediately and expire within six months of issuance. As at March 31, 2020, no stock options have been exercised.

As at March 31, 2020, vested options total 80,208. The value of vested options totalled $56,011, of which $55,601 relates to the stock options issued as part of the RTO. The value of unvested stock options totalled $205. The expected remaining life of options is 0.01 of a year. The fair value of stock options is determined by the Black-Scholes method.

During the three months ended March 31, 2020, the Company recorded share-based compensation expense on the stock options of $23 (2019 - $63).

Contributed surplus

Contributed surplus is comprised of share-based compensation.

9. General and administrative expense

		March 31, 2020		March 31, 2019
Salary and benefits	**$**	**243,592**	$	166,263
Paid and accrued bonuses		**114,753**		42,616
Professional fees		**47,917**		50,726
Marketing and investor relations		**72,486**		3,102
Executive and advisory fee		**30,655**		31,644
Rent		**20,673**		10,357
Insurance		**28,587**		9,255
Office and administration costs		**33,562**		2,267
Legal fees		**201,270**		18,514
Travel costs		**8,588**		8,657
Transaction fees		**-**		8,475
Public company costs		**24,109**		-
Total	**$**	**826,192**	$	351,876

10. Fair value of financial instruments

Financial instruments recorded at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the observability of significant inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – valuation techniques using one or more significant inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

			March 31, 2020	December 31, 2019
Cash and cash equivalents	FVTPL	Level 1	**$ 11,661,703**	$ 20,887,704
Amounts receivable	Amortized cost		**118,744**	109,969
Loans receivable	FVTPL	Level 3	**928,608**	-
Loans receivable	Amortized cost		**15,014,162**	7,023,217
Due from related parties	Amortized cost		**-**	23,583
Due to related parties	Amortized cost		**15,442**	-
Investments	FVTPL	Level 1	**244,405**	226,368
Derivative assets	FVTPL	Level 2	**6,818**	154,143
Derivative assets	FVTPL	Level 3	**241,381**	300,921
Amounts payable and accrued liabilities	Amortized cost		**1,632,135**	1,264,160
Deposits	Amortized cost		**31,445**	78,977

Fair Value Through Profit and Loss ("FVTPL").

In the normal course of business, the Company holds various financial instruments, which by their nature involve risk, including liquidity risk, interest rate risk, and credit risk of non-performance by counter parties. These financial instruments are subject to normal credit standards, financial controls, risk management as well as monitoring procedures.

The Company is exposed in varying degrees to a variety of financial instrument related risks:

Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient, readily available capital in order to meet its liquidity requirements. Considering the capital intensity of the business, this would include analyzing the expectation of future cash outflows for new lending arrangements as well as additional capital draw downs on existing loans. In order to reduce liquidity risk, when entering into a lending arrangement with a borrower that includes a clause for additional borrowing subsequent to the initial capital outlay, Trichome Financial generally ensures that any additional lending is at the Company's discretion.

As at March 31, 2020, $3.0 million of cash and cash equivalents is comprised of a Guaranteed Investment Certificate ("GIC") that can be drawn upon, in part or in whole, at any time.

COVID-19

During the three months ended March 31, 2020, the World Health Organization declared COVID-19 a global pandemic, greatly impacting financial markets and leading governments within the jurisdictions of the Company's borrowers to implement certain social distancing and quarantine measures. As at the date of these Financial Statements, any impact to the Company's borrowers is uncertain, however, the impact of COVID-19 may effect ECLs on a go-forward basis should any of the Company's borrowers be unable to maintain liquidity, cultivation activities, or sales to customers. The impact of COVID-19 on financial markets may delay timing of Trichome Financial's Fund.

The Company did not institute any changes to its liquidity strategy during the year.

Interest rate risk

The Company's exposure to interest rate risk relates to risk of loss due to volatility of interest rates. The Company does not enter into lending arrangements where the interest rate is variable, which reduces its risk to the volatility of market rates. The Company's policy is to invest excess cash in investment grade short term guaranteed investment certificates. The Company periodically monitors the investments it makes and is satisfied with the creditworthiness of its banks.

The Company did not institute any changes to its interest rate strategy during the period.

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 relates to the Company's loans receivable. This risk is mitigated through due diligence performed on counterparties, and other contractual arrangements, which includes pledged assets of the borrower as collateral.

Trichome Financial generally assesses borrowers' management experience/integrity, financial health, business plans, capacity, products, customers, contracts, competitive advantages/disadvantages, and other pertinent factors when assessing credit risk. This includes the analysis of forward-looking financial forecasts. Management, using knowledge and experience in the cannabis industry, assesses the viability of the forecasts prepared by the borrower in order to determine the overall level of credit risk associated with the deployment of capital. On certain loans, interest is paid upfront by the borrower, in addition to set-up fees and original issuer discounts, in order to reduce credit risk. In some instances, loans may also include a minimum working capital surplus to be maintained by the borrower throughout the duration of the loan in order to reduce the risk of the borrower not being able to service their debt obligations with the Company. Finally, as an additional protection to reduce credit risk, the Company may also obtain derivative assets or equity instruments in the borrower when entering certain lending arrangements. Obtaining these financial assets alleviates the credit risk associated with the capital deployed, as they can be liquidated to recoup any proceeds lost in the case of default on a loan.

In addition to due diligence and the factors noted above, Trichome Financial obtains approval from its Board of Directors for significant lending arrangements. Trichome Financial generally considers collateral of the underlying businesses, including property, plant and equipment, inventory, and receivables, in structuring its investments and managing credit risk. Trichome Financial actively monitors financial results

of the underlying businesses regularly against the underlying business plans and industry trends. This typically includes comparing the borrower's forecasts originally considered when entering into the lending arrangement versus actual results. Using this information, Management will then reassess the borrowers' overall credit rating throughout the term of the loan and record an additional expected credit loss as needed, if it has been determined that the borrower's credit rating has diminished since entering the arrangement. As part of this assessment, Management will take into consideration whether or not the expected credit loss associated with the loan needs to be determined based on the expected losses over the next year, or alternatively, if the credit rating of the borrower has significantly diminished, the lifetime expected loss on the loan.

Trichome Financial's borrowers are generally within the Canadian cannabis industry, however, Trichome Financial diversifies credit risk by lending to companies that operate in different Canadian geographic regions, as well as different sectors within the cannabis market such as cultivation, extraction, and retail. The Company also lends to cannabis companies in the United States, with one loan outstanding to Cresco.

The Company did not institute any changes to its credit risk policy during the period.

Capital management

The Company's objective when managing capital are to ensure that there is adequate capital resources to safeguard the Company's ability to continue as a going concern and maintain adequate levels of funding to support its ongoing operations and development such that it can continue to provide returns to shareholders and benefits for other stakeholders.

The Company's capital is composed of equity. The Company's primary uses of capital are loans to companies in the cannabis industry. The Company also uses capital to finance operations, capital expenditures, and increases in working capital. The Company currently manages these requirements from raises through financings and may need to raise additional funds to reach its goals. The Company's objective when managing capital are to ensure that the Company will continue to have enough liquidity to build its portfolio of loans from which it will obtain returns based on interest payments and equity interests in their borrowers, which are obtained as part of certain lending arrangements.

The Company monitors its capital based on the adequacy of its cash resources to fund its business plan. In order to maximize flexibility to finance growth of the business, the Company does not currently pay a dividend to holders of its common shares. The Company did not institute any changes to its capital management strategy during the year.

11. Segmented information

Trichome Financial Corp. operates under one reporting segment. During the three months ended March 31, 2020 and 2019, the Company generated the following types of revenue:

		March 31, 2020		March 31, 2019
Interest revenue	**$**	**635,079**	$	57,262
Total revenue	**$**	**635,079**	**$**	**57,262**

Three borrowers generated 85% of total revenue during the three months ended March 31, 2020, with the largest comprising 47% (2019 – three borrowers generated 100% of total revenue with the largest comprising 69%).

12. Commitments and contingencies

Leases

The Company currently leases office space on a month-to-month basis and therefore does not have any significant lease commitments.

Loans

As part of the lending arrangement entered into with Heritage Cannabis Corp. (Note 3) on January 30, 2020, the Company has a remaining unfunded commitment of $1,825,000, which may be advanced upon completion of certain conditions. The tranche 2 advance will be issued with the same terms as tranche 1. As at March 31, 2020, the conditions required for the tranche 2 advance had not yet been satisfied and thus the $1,825,000 remains an unfunded commitment.

13. Subsequent events

James E. Wagner Cultivation Corporation

On April 1, 2020, JWC agreed to a plan of consensual restructuring (the “Restructuring”) wherein JWC would seek approval for an Initial Order approving an application for creditor protection under the *Companies’ Creditors Arrangement Act (Canada)*. The Restructuring was reviewed and recommended by the Special Committee of the Board of JWC (the “Special Committee”) and approved unanimously by the entire Board through a resolution on March 31, 2020. The Initial Order granting JWC’s application for CCAA was granted on April 1, 2020 by the Ontario Superior Court of Justice.

In connection with the Restructuring, Trichome Financial and JWC agreed to (i) a Debtor-in-Possession Loan (“DIP Loan”) in which Trichome Financial will provide up to $4.0 million in interim financing over the term of the Restructuring; (ii) the appointment of KSV Kofman Inc. as monitor in the CCAA proceedings; (iii) an offer by Trichome Financial to purchase the assets of JWC which contemplates that Trichome Financial will be the “stalking-horse” in the Sales and Investor Solicitation Process (“SISP”), which will be managed by Stoic Advisory and will be overseen by the Special Committee and the monitor (the “Stalking-horse Bid”); and (iv) the appointment of Howard Steinberg, a Trichome Financial Board member, as the Chief Restructuring Officer.

The DIP Loan matures on the earlier of: (i) the occurrence of any event of default which has not been cured; (ii) the implementation of a court approved plan of compromise approved by a majority of JWC's creditors, which includes Trichome; (iii) the closing of a court approved sale of JWC to Trichome through its Stalking-horse Bid, or to a successful third-party bidder, which will require the repayment of the JWC Loan and the DIP Loan; (iv) conversion of the CCAA proceedings into a proceeding under the *Bankruptcy and Insolvency Act (Canada)*; and (v) June 30, 2020.
On May 15, 2020, the Company was confirmed as the successful bidder for the assets of JWC. It is expected that a Sale and Approval hearing will be held on or around May 29, 2020 with the Ontario Superior Court of Justice and final closing to occur upon Health Canada license approval. The assets of JWC are to be purchased free and clear of any liabilities for an effective purchase price equal to the Company's pre-filing secured claim of $7.5 million plus the estimated amount of the outstanding DIP financing upon closing. On May 15, 2020, the DIP financing commitment was increased by $1.5 million. As at the date of these financial statements, the DIP principal balance was $4.0 million with an unfunded commitment of $1.5 million.

Good Buds loan

On April 6, 2020, the Company advanced an additional $0.55 million to Good Buds to be used for the purchase of equipment. The advance is pursuant to the original loan agreement signed between both parties on August 20, 2019. As part of that agreement, Good Buds was given the ability to request additional increases in the loan balance up to a maximum of $2.5 million. The loan bears interest at an annual interest rate of 11.5% and matures on September 1, 2020. In connection with the additional advance, the Company obtained 222,340 Good Buds common share purchase warrants. The warrants expire on April 6, 2023 and have an exercise price of $0.60 per warrant. The exercise price of the warrants can be adjusted lower than $0.60 per warrant in the event Good Buds issues common share at a value of less than $0.60 per share or there is a liquidity event.

Hello Cannabis

In March 2020, Hello Cannabis began operations at its retail location in Sault Ste. Marie, Ontario. In accordance with the royalty agreement signed with Hello Cannabis on February 28, 2020 (Note 3), Trichome began earning a royalty on gross sales from this location starting in April 2020.

Trichome Special Opportunities and Trichome Advisory Partners

On May 4, 2020, the Company launched Trichome Special Opportunities ("TSO") and Trichome Advisory Partners ("TAP").

Trichome Special Opportunities is a private equity unit focused on providing strategic capital to companies across the cannabis value chain that are experiencing financial and/or operational difficulties.

Trichome Advisory Partners is a fee-driven advisory business focused on providing critical financial, strategic and operational support to cannabis companies, lenders and investors. TAP will focus on providing advice with respect to financial and operational restructuring, stakeholder engagement, asset recovery, and capital structure enhancement.