

Consolidated financial statements of

**Consolidated Firstfund  
Capital Corp.**

December 31, 2018 and 2017

# Consolidated Firstfund Capital Corp.

December 31, 2018 and 2017

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# **Cinnamon Jang Willoughby**

Chartered Professional Accountants

*A Partnership of Incorporated Professionals*

## **INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of Consolidated Firstfund Capital Corp.

### **Report on the Audit of the Consolidated Financial Statements**

#### **Opinion**

We have audited the consolidated financial statements of Consolidated Firstfund Capital Corp. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2018 and December 31, 2017, and the consolidated statement of income and comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### **Basis for Opinion**

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

#### **Material Uncertainty Related to Going Concern**

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Group has a total deficit of \$2,313,237 at December 31, 2018 and, as of that date the Group's current liabilities exceeded its current assets by \$227,242. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

#### **Information Other than the Consolidated Financial Statements and Auditor's Report Thereon**

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Peter Cha.

A handwritten signature in black ink that reads "Cinnamon Jang Willoughby". The signature is written in a cursive, flowing style.

Chartered Professional Accountants

Burnaby, BC  
April 26, 2019

# Consolidated Firstfund Capital Corp.

Consolidated statements of financial position  
years ended December 31, 2018 and 2017

(expressed in Canadian dollars)

	2018	2017
	\$	\$
<b>Assets</b>		
Current assets		
Cash	109,972	98,142
Accounts receivable (Notes 5 and 14)	88,771	80,318
Prepaid expenses	3,525	3,467
	<b>202,268</b>	181,927
Investments (Note 6)	1,720,081	769,794
Deferred tax asset (Note 12)	-	2,600
Property and equipment (Note 7)	9,168	12,139
Long-term receivable from related party (Notes 5 and 14)	14,602	14,602
	<b>1,946,119</b>	981,062
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities (Notes 8 and 14)	36,370	50,048
Amounts owing to related party (Note 14)	290,740	316,749
Redeemable preference shares (Note 9)	102,400	100,000
	<b>429,510</b>	466,797
Deferred tax liability (Note 12)	54,036	-
	<b>483,546</b>	466,797
<b>Shareholders' equity</b>		
Capital stock (Note 10)	3,578,374	3,546,413
Reserves - equity settled employee benefits	197,436	171,697
Deficit	(2,313,237)	(3,073,659)
Accumulated other comprehensive loss (Note 11)	-	(130,186)
	<b>1,462,573</b>	514,265
	<b>1,946,119</b>	981,062

Approved and authorized by the Board on April 25, 2019

**"W. Douglas Grant" (signed)**

W. Douglas Grant, Director

**"Cheryl A. Grant" (signed)**

Cheryl A. Grant, Director

# Consolidated Firstfund Capital Corp.

## Consolidated statements of income and comprehensive income years ended December 31, 2018 and 2017

(expressed in Canadian dollars)

	2018	2017
	\$	\$
<b>Revenue</b>		
Fee income (Note 14)	317,060	317,520
Other income (Note 14)	2,961	2,447
Unrealized net gain on investments measured at fair value through profit or loss (Note 6)	950,287	175,216
	<b>1,270,308</b>	<b>495,183</b>
<b>Expenses</b>		
Salaries and benefits (Note 14)	137,950	131,044
Office, administration and rent (Note 14)	100,338	91,656
Share-based compensation (Notes 10 and 14)	41,200	-
Professional fees	30,000	30,000
Consulting (Note 14)	12,000	12,600
Other	4,371	4,282
Travel and promotion	96	847
Foreign exchange (gain) loss	(5,291)	7,916
	<b>320,664</b>	<b>278,345</b>
Other expenses		
Impairment of investments in partnerships (Note 6)	-	(2)
Accrued dividends on redeemable preference shares (Note 9)	(2,400)	(2,400)
	<b>(2,400)</b>	<b>(2,402)</b>
Income before income taxes	947,244	214,436
Income tax expense (recovery) (Note 12)	56,636	6,500
<b>Net income for the year</b>	<b>890,608</b>	<b>207,936</b>
Items that may be reclassified subsequent to net income, net of taxes		
Unrealized gain on available-for-sale investments	-	3,009
Other comprehensive income	-	3,009
<b>Comprehensive income for the year</b>	<b>890,608</b>	<b>210,945</b>
Earnings per share		
Basic and diluted	0.14	0.03
Weighted average number of common shares		
Basic (Note 18)	6,171,703	6,006,703
Diluted (Note 18)	6,371,703	6,073,370

# Consolidated Firstfund Capital Corp.

Consolidated statements of changes in equity  
years ended December 31, 2018 and 2017

(expressed in Canadian dollars)

	<u>Capital Stock</u>		Reserves	Deficit	Accumulated	Total
	Number	Amount			Other	
		\$	\$	\$	Loss	\$
					\$	
Balance at December 31, 2016	6,006,703	3,546,413	171,697	(3,281,595)	(133,195)	303,320
Net income	-	-	-	207,936	-	207,936
Other comprehensive income	-	-	-	-	3,009	3,009
Balance at December 31, 2017	6,006,703	3,546,413	171,697	(3,073,659)	(130,186)	514,265
Adjustment to retained earnings for adoption of IFRS 9	-	-	-	(130,186)	130,186	-
Balance at January 1, 2018 as restated (Note 2(b))	6,006,703	3,546,413	171,697	(3,203,845)	-	514,265
Stock options exercised	165,000	31,961	(15,461)	-	-	16,500
Share-based compensation	-	-	41,200	-	-	41,200
Net income	-	-	-	890,608	-	890,608
<b>Balance at December 31, 2018</b>	<b>6,171,703</b>	<b>3,578,374</b>	<b>197,436</b>	<b>(2,313,237)</b>	<b>-</b>	<b>1,462,573</b>

# Consolidated Firstfund Capital Corp.

## Consolidated statements of cash flows years ended December 31, 2018 and 2017

(expressed in Canadian dollars)

	2018	2017
	\$	\$
<b>Operating activities</b>		
Net income for the year	890,608	207,936
Items not involving cash		
Depreciation	2,971	2,882
Share-based compensation	41,200	-
Accrual of dividend on redeemable preference shares	2,400	2,400
Impairment of investments in partnerships	-	2
Unrealized net gain on revaluation of investments measured at fair value through profit or loss	(950,287)	(175,216)
Deferred income tax expense (recovery)	56,636	6,500
	43,528	44,504
(Decrease) increase in non-cash operating working capital (Note 13)	(23,198)	29,914
	20,330	74,418
<b>Investing activities</b>		
Fixed assets purchased	-	(1,784)
Decrease in long-term receivable	-	211,279
	-	209,495
<b>Financing activities</b>		
Decrease in amounts owing to a related party	(25,000)	(228,429)
Stock options exercised	16,500	-
	(8,500)	(228,429)
Increase in cash position during the year	11,830	55,484
Cash, beginning of year	98,142	42,658
<b>Cash, end of year</b>	<b>109,972</b>	<b>98,142</b>

Additional information is presented in Note 13.

# Consolidated Firstfund Capital Corp.

## Notes to the consolidated financial statements

December 31, 2018 and 2017

(expressed in Canadian dollars)

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### 1. Description of the business and going concern

Consolidated Firstfund Capital Corp. (the "Company") is incorporated under the Canada Business Corporations Act. The head office and registered office of the Company is located at #304 - 837 West Hastings Street, Vancouver, BC, Canada, V6C 3N6. The Company is listed on the TSX Venture Exchange (TSX-V) and trades under the symbol "FFP".

The Company is primarily engaged in financial consulting relating to real estate development and venture capital activities in Canada and the United States.

The consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the course of business rather than through a process of forced liquidation. The Company has a total deficit of \$2,313,237 at December 31, 2018 and, as of that date the Company's current liabilities exceeded its current assets by \$227,242. Continued operations of the Company are dependent on the Company's ability to receive continued financial support from its principal shareholder and lenders, maintaining profitable operations and issuing additional equity. These circumstances indicate the existence of material uncertainties that cast significant doubt as to the Company's ability to continue as a going concern.

In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to twelve months from the end of the reporting period. These financial statements do not include any adjustments relating to the realization of assets and liquidation of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

### 2. Basis of presentation

#### (a) Statement of compliance

These consolidated financial statements are audited and have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

Except as described in Note 2(b), significant accounting policies have been consistently applied in preparation of these consolidated financial statements. The consolidated financial statements of the Company for the years ended December 31, 2018 and 2017 have been prepared by management, reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on April 25, 2019. Shortly thereafter, the financial statements are made available to shareholders.

#### (b) New and amended standards and interpretations

##### *IFRS 9, "Financial Instruments"*

Effective January 1, 2018, the Company adopted IFRS 9 *Financial Instruments* (IFRS 9), which replaced IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39). IFRS 9 was adopted retrospectively without restatement, as allowed under the standard's transitional provisions. IFRS 9 addresses the classification and measurement of financial assets and financial liabilities, including the impairment of financial assets and other commitments.

As a result of the application of IFRS 9, the Company changed its accounting policies for financial assets effective January 1, 2018 as described in Notes 3(b) and 3(c). The IAS 39 accounting policies that were applied prior to January 1, 2018 are included in Note 3(d). For the Company the adoption of IFRS 9 caused the reclassification of certain available for sale investments under IAS 39 to fair value through profit or loss under IFRS 9, and the adoption of the expected credit loss model for impairment of financial assets.

# Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

December 31, 2018 and 2017

(expressed in Canadian dollars)

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## 2. Basis of presentation (continued)

### (b) *New and amended standards and interpretations (continued)*

#### *IFRS 9, "Financial Instruments" (continued)*

As a result of adopting IFRS 9, gains and losses recorded under accumulated other comprehensive income as at December 31, 2017 have been recognized as an adjustment to opening retained earnings at January 1, 2018 in the consolidated statements of changes in shareholder's equity.

#### *IFRS 15, "Revenue from Contracts with Customers"*

In May 2014, the IASB issued this new standard which supersedes the requirements of *IAS 11 Construction Contracts*, *IAS 18 Revenue*, *IFRIC 13 Customer Loyalty Programmes*, *IFRIC 15 Agreements for the Construction of Real Estate*, *IFRIC 18 Transfers of Assets from Customers*, and *SIC-31 Revenue - Barter Transactions Involving Advertising Services*.

The standard applies a core principal in that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It follows a five-step analysis of transactions to determine when and how much revenue is to be recognized. Management has assessed this standard as not having any impact on the Company's financial statements.

### (c) *Basis of measurement*

These consolidated financial statements are prepared on the historical cost basis.

### (d) *Functional and presentation currency*

The Company and its subsidiaries record transactions based on the currency of the primary economic environment in which they operate ("functional currency"). The Company's functional currency is the Canadian dollar.

### (e) *Principles of consolidation*

The consolidated financial statements consolidate the assets, liabilities and results of all entities in which the Company holds a controlling interest. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All intercompany balances, transactions and unrealized profits are eliminated in full.

These consolidated financial statements include the accounts of Consolidated Firstfund Capital Corp., and its wholly-owned subsidiaries, Costar Marketing Corp. and ILP Marketing Ltd.

## 3. Significant accounting policies

### (a) *Cash*

Cash includes cash on hand and balances with banks.

# Consolidated Firstfund Capital Corp.

## Notes to the consolidated financial statements

December 31, 2018 and 2017

(expressed in Canadian dollars)

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### 3. Significant accounting policies (continued)

(b) *Financial instruments under IFRS 9 effective January 1, 2018*

Financial assets are initially recognized at fair value. Subsequent measurement of financial assets is at fair value through profit or loss, amortized cost, or fair value through other comprehensive income (FVTOCI). The classification is based on two criteria: the Company's business approach for managing the financial assets and whether the instruments' contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding (the SPPI criterion). The business approach considers whether the Company's objective is to receive cash flows from holding assets, from selling assets in a portfolio, or a combination of both. The Company reclassifies financial assets only when its business approach for managing those assets changes. Purchases or sales of financial assets are accounted for at settlement.

Financial liabilities are initially recognized at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs. Subsequent measurement of financial liabilities is at amortized cost using the effective interest rate (EIR) method. For trade and other payables and other financial liabilities, realized gains and losses are reported in income. For long-term debts, EIR amortization and realized gains and losses are recognized in net finance expense.

#### Classification and subsequent measurement

Cash	Financial asset at fair value through profit or loss
Accounts receivable	Amortized cost
Long-term receivable from related party	Amortized cost
Investment in preferred shares	Financial asset at fair value through profit or loss
Investment in common shares	Financial asset at fair value through profit or loss
Accounts payable	Amortized cost
Amounts owing to related party	Amortized cost
Redeemable preference shares	Amortized cost

(i) Financial assets or financial liabilities at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets typically acquired for resale prior to maturity or that are designated as held-for-trading or other equity investments that are not held-for-trading. They are measured at fair value at each period end date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in profit or loss.

Financial liabilities at fair value through profit or loss are those non-derivative financial liabilities that the Company elects to designate on initial recognition as financial instruments that it will measure at fair value. These are accounted for in the same manner as financial assets at fair value through profit or loss. The Company has not designated any non-derivative financial liabilities as financial liabilities at fair value through profit or loss.

(ii) Amortized cost

Financial assets and liabilities subsequently carried at amortized cost are amortized using the effective interest method.

# Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

December 31, 2018 and 2017

(expressed in Canadian dollars)

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## 3. Significant accounting policies (continued)

### (b) Financial instruments under IFRS 9 effective January 1, 2018 (continued)

#### (iii) Transaction costs

Transaction costs related to financial assets or financial liabilities at fair value through profit or loss are expensed as incurred. Transaction costs related to financial assets and liabilities carried at amortized cost are added to the carrying value of the asset or deducted from the carrying value of the liability and are then recognized over the expected life of the instrument using the effective interest method.

#### (iv) Effective interest method

The Company uses the effective interest method to recognize interest income or expense which includes transaction costs or fees, premiums or discounts earned or incurred for financial instruments.

### (c) Impairment of financial assets under IFRS 9 effective January 1, 2018

The Company recognizes an allowance for expected credit losses (ECLs) on financial assets carried at amortized cost based on a 12-month ECL or lifetime ECL. Financial assets considered to have low credit risk have an impairment provision recognized during the period limited to 12-month ECLs. However, when credit risk has increased significantly since origination, the allowance is based on the lifetime ECL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls. ECLs are discounted at the effective interest rate of the financial asset.

When the carrying amount of financial assets is reduced through an ECL allowance, the reduction is recognized as impairment of financial asset in profit and loss.

### (d) Financial instruments – IAS 39 accounting policy, applied prior to January 1, 2018

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose, for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments. Settlement date accounting is used.

#### Classification and subsequent measurement

Cash	Financial asset at fair value through profit or loss
Accounts receivable	Loans and receivables
Long-term receivable from related party	Loans and receivables
Investment in preferred shares	Available for sale
Investment in common shares	Financial asset at fair value through profit or loss
Accounts payable	Other liabilities
Amounts owing to related party	Other liabilities
Redeemable preference shares	Other liabilities

# Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

December 31, 2018 and 2017

*(expressed in Canadian dollars)*

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## 3. Significant accounting policies (continued)

(d) *Financial instruments – IAS 39 accounting policy, applied prior to January 1, 2018 (continued)*

(i) Financial assets or financial liabilities at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets typically acquired for resale prior to maturity or that are designated as held-for-trading. They are measured at fair value at the period end date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in profit or loss.

Financial liabilities at fair value through profit or loss are those non-derivative financial liabilities that the Company elects to designate on initial recognition as financial instruments that it will measure at fair value. These are accounted for in the same manner as financial assets at fair value through profit or loss. The Company has not designated any non-derivative financial liabilities as financial liabilities at fair value through profit or loss.

(ii) Available-for-sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held-to-maturity or financial assets or financial liabilities at fair value through profit or loss investments. Except as mentioned below, available-for-sale financial assets are carried at fair value with unrealized gains and losses included in accumulated other comprehensive income until realized or deemed to be an other than temporary impairment when the cumulative loss is transferred to profit or loss.

Available-for-sale financial assets that do not have quoted market prices in an active market are recorded at cost.

Interest on interest-bearing available-for-sale financial assets is calculated using the effective interest method.

(iii) Loans and receivables

Loans and receivables are accounted for at amortized cost using the effective interest method.

(iv) Other liabilities

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments.

(v) Transaction costs

Transaction costs related to financial assets or financial liabilities at fair value through profit or loss are expensed as incurred. Transaction costs related to available-for-sale financial assets, held-to-maturity financial assets, other liabilities and loans and receivables are netted against the carrying value of the asset or liability and are then recognized over the expected life of the instrument using the effective interest method.

# Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

December 31, 2018 and 2017

(expressed in Canadian dollars)

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## 3. Significant accounting policies (continued)

(d) *Financial instruments – IAS 39 accounting policy, applied prior to January 1, 2018 (continued)*

(vi) Effective interest method

The effective interest rate method discounts estimated future cash payments or receipts through the expected life of a financial instrument, and thereby calculates the amortized cost and subsequently allocates the interest income or expense over the life of the instrument. Interest income or expense which includes transaction costs or fees, premiums or discounts earned or incurred for financial instruments.

Impairment

The Company assesses at each date of the statement of financial position whether a financial asset is impaired.

If there is objective evidence that an impairment loss on an asset carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

In relation to receivables, a provision for impairment is made and an impairment loss is recognized in income when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from accumulated comprehensive income to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit or loss.

(e) *Investments*

The Company accounts for its investments in companies over which it has significant influence using the exemptions afforded to a venture capital company, whereby the investment is valued at fair value through profit and loss.

# Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

December 31, 2018 and 2017

(expressed in Canadian dollars)

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## 3. Significant accounting policies (continued)

### (f) *Property and equipment*

The following assets are recorded at historical cost less any accumulated amortization. Historical cost includes all costs directly attributable to the acquisition. Amortization is provided in the accounts on a straight line balance basis at the following annual rates:

Office furniture and equipment	20%
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Included in office furniture is artwork which is not depreciated.

When it is determined that the carrying values of property and equipment exceed net recoverable amounts, the assets are written down to net realizable value and a charge is recorded in the statement of income.

### (g) *Share-based compensation*

In connection with incentive stock options granted by the Company to its officers, directors, employees and consultants, an expense is recognized over the vesting period based on the estimated fair value of the options on the date of the grant as determined using the Black-Scholes option pricing model. The expense is charged to share-based compensation and the offset is credited to reserves - equity settled employee benefits. Cash received on exercise of incentive stock options is credited to the then issued and outstanding capital stock of the Company, with a corresponding transfer between reserves - equity settled employee benefits and capital stock.

### (h) *Impairment of non-financial assets*

At each date of the statement of financial position, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

# Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

December 31, 2018 and 2017

(expressed in Canadian dollars)

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## 3. Significant accounting policies (continued)

### (i) *Income taxes*

Income tax expense (recovery) represents the sum of tax currently payable (recoverable) and changes to deferred tax assets and liabilities as a result of operations during the period.

#### *Current income taxes*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the statement of financial position.

#### *Deferred income taxes*

Deferred income tax is recognized in respect of temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets and liabilities are recognized for all taxable temporary differences with the exception of the following circumstances:

- Where the deferred income tax asset and liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and
- Deferred tax liabilities in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable income will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income.

# Consolidated Firstfund Capital Corp.

## Notes to the consolidated financial statements

December 31, 2018 and 2017

(expressed in Canadian dollars)

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### 3. Significant accounting policies (continued)

(i) *Income taxes (continued)*

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

(j) *Foreign currency translation*

Transactions denominated in currencies other than functional currency are recorded using the exchange rate as at date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the period end exchange rate. Exchange gains and losses are included in earnings.

*Translation of foreign operations*

Assets and liabilities of subsidiaries having a functional currency other than the Canadian dollar are translated at the exchange rates in effect at the period end date. Revenues and expenses are translated at exchange rate as at date of transaction or average exchange rates prevailing during the period. The resulting translation adjustment is included in accumulated other comprehensive income until there is a reduction in the net investment.

(k) *Revenue recognition*

The Company generates fee income from arrangements in which services are typically provided over time to entities under common control. Revenue is measured based on the consideration the Company expects to be entitled to in exchange for providing services.

Rental income is recognized as income in the month earned, the price of the services is fixed or determinable and collection is reasonably assured.

Other income consists of administrative and overhead costs charged to various related parties under common control. Other income is recognized as income in the period in which the expenses are incurred.

(l) *Earnings per common share*

Basic earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per share is computed similar to basic earnings per share except that weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

# Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

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(expressed in Canadian dollars)

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## 3. Significant accounting policies (continued)

### (m) Significant judgments and sources of estimation uncertainty

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual outcomes could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

### (i) Significant Judgments

The following are the critical judgments, apart from those involving estimations (see note below), that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

#### *Ability to continue as a going concern*

Management assesses the Company's ability to continue as a going concern at each reporting date, using all quantitative and qualitative information available. This assessment, by its nature, relies on estimates of future cash flows and other future events (as discussed in Note 1), whose subsequent changes could materially impact the validity of such an assessment.

#### *Fair value of financial instruments*

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available is determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or by using valuation models. If market observable inputs are not available, they are estimated based on appropriate assumptions.

#### *Nature of relationship with Vitality Products Inc.*

Management assesses the nature of the Company's relationship with Vitality Products Inc. using all available information. As a result, management determines the appropriate method of accounting for the Company's investment in Vitality at each reporting date. According to IAS 28, the definition of significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. In assessing whether significant influence exists, management considers the Company's representation on the Vitality Board of Directors, the Company's participation in the Vitality policy-making process, any material transactions between the Company and Vitality, the interchange of managerial personnel between the Company and Vitality, and the Company's provision of essential technical information to Vitality.

# Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

December 31, 2018 and 2017

(expressed in Canadian dollars)

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## 3. Significant accounting policies (continued)

(m) *Significant judgments and sources of estimation uncertainty (continued)*

(i) *Significant Judgments (continued)*

*Nature of relationship with Vitality Products Inc. (continued)*

Management has determined the Company had significant influence over Vitality Products Inc. As a venture capital company and pursuant to the exemptions in IAS 28 "Investments in Associates and Joint Ventures", management determined the accounting treatment for the Company's investment in Vitality Products Inc. common shares to be measured at fair value through profit or loss.

*Income taxes*

The Company calculates deferred income taxes based upon temporary differences between the assets and liabilities that are reported in its consolidated financial statements and their tax bases as determined under applicable tax legislation. The future realization of deferred tax assets can be affected by many factors, including: current and future economic conditions, net realizable sale prices, and can either be increased or decreased where, in the view of management, such change is warranted. In determining whether a deferred tax asset is probable, management reviews the timing of expected reversals of taxable temporary differences, the estimates of future taxable income and prudent and feasible tax planning that could be implemented. Refer to Note 12 for further details.

(ii) *Sources of Estimation Uncertainty*

*Expected credit losses*

Under IFRS 9, the expected credit loss (ECL) model requires management to make judgments and estimates in a number of areas. Management must exercise significant judgment in determining whether there has been a significant increase in credit risk since initial recognition and in estimating the amount of expected credit losses. The calculation of expected credit losses includes the incorporation of forward-looking information, which requires significant judgment to determine the forward-looking variables that are relevant for each financial asset and the scenarios and probability weights that should be applied. Management also exercises judgment in determining the amount of ECL at each reporting date by considering reasonable and supportable information that is readily available. Changes in these inputs, assumptions, models and judgments directly impact the measurement of ECLs.

*Share-based payment transactions*

The Company measures the cost of share-based payment transactions by reference to the fair value of the equity instruments at the grant date. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which depends on the terms and conditions of the grant. The Company has chosen the Black-Scholes option-pricing model for equity-settled and cash-settled share-based payment transactions. Estimating fair value also requires determining the most appropriate inputs to the valuation model - including volatility in the price of the Company's shares, a risk-free interest rate, and the expected hold period to exercise and rates of forfeiture - and making assumptions about them. Changes to estimates are recorded in the period they are made and affect the Company's expenses and reserves.

# Consolidated Firstfund Capital Corp.

## Notes to the consolidated financial statements

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(expressed in Canadian dollars)

### 4. Pending adoption of IFRS 16 and IFRIC 23

(a) IFRS 16, "Leases"

In January 2016, the IASB issued IFRS 16, replacing IAS 17, "Leases". IFRS 16 provides a single lessee accounting model and requires the lessee to recognize assets and liabilities for all leases on its balance sheet, providing the reader with greater transparency of an entity's lease obligation. This standard is effective for reporting periods beginning on or after January 1, 2019, with early adoption permitted. Management has assessed this standard as not having any impact on the Company's financial statements.

(b) IFRIC 23, *Uncertainty over income tax treatments*

IFRIC 23 clarifies how to apply the recognition and measurement requirements of IAS 12 when there is uncertainty over income tax treatments. It will be applicable for annual periods beginning on or after January 1, 2019. Management has not yet assessed the impact of this interpretation on the Company's financial statements.

### 5. Receivables

	2018	2017
	\$	\$
Current:		
Accounts receivable from related parties (see Note 14)	87,079	79,625
GST/HST receivable	1,692	693
Total current	88,771	80,318
Long-term receivable from related party (see Note 14)	14,602	14,602
Total receivables	103,373	94,920

### 6. Investments

	2018	2017
	\$	\$
Investments in Vitality Products Inc.		
Common shares measured at fair value through profit or loss (a)	1,682,081	630,780
26,920 Retractable and redeemable preference shares measured at fair value through profit and loss (2017 - AFS, FVTOCI) (b)	38,000	139,014
	1,720,081	769,794
Investments in partnerships measured at cost (c)	-	-
	1,720,081	769,794

# Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

December 31, 2018 and 2017

(expressed in Canadian dollars)

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## 6. Investments (continued)

### (a) Common shares

The Company owns 22.5% (2017 - 27.1%) of the issued and outstanding common shares of Vitality Products Inc. The Company has elected to use the exemptions allowed under IAS 28, "Investments in Associates and Joint Ventures" for venture capital companies to report this investment at fair value through profit or loss which resulted in an unrealized gain of \$1,051,301 in 2018 (2017 - \$175,216).

### (b) Preferred shares

The Company owns 100% (2017 - 100%) of the issued non-voting, redeemable Class "A" Preference Shares, Series 3 of Vitality Products Inc. which bear a 6% cumulative dividend. These shares are retractable by the Company or redeemable by Vitality at a price of \$10 per share plus all unpaid dividends accrued thereon to the date of redemption. Vitality can force the conversion to common shares at a price equal to the lesser of the current market price per share and \$0.25 per common share plus all unpaid dividends accrued thereon to the date of conversion.

This investment is measured at fair value through profit and loss which resulted in an unrealized loss of \$101,014 in 2018 (2017 - a gain of \$3,009 was recorded in AOCI).

### (c) Investments in partnerships

During 2017, management assessed the value of this investment and determined it was impaired and recorded an impairment loss of \$2.

# Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

December 31, 2018 and 2017

(expressed in Canadian dollars)

## 7. Property and equipment

	<b>Office furniture and equipment</b>
	<b>\$</b>
<b>Cost</b>	
As at December 31, 2016	52,604
Additions	1,784
Disposals	(16,619)
As at December 31, 2017	37,769
Additions	-
Disposals	(3,607)
<b>As at December 31, 2018</b>	<b>34,162</b>
<b>Accumulated depreciation</b>	
As at December 31, 2016	39,367
Depreciation	2,882
Disposals	(16,619)
As at December 31, 2017	25,630
Depreciation	2,971
Disposals	(3,607)
<b>As at December 31, 2018</b>	<b>24,994</b>
<b>Net book value</b>	
As at December 31, 2017	12,139
<b>As at December 31, 2018</b>	<b>9,168</b>

Included in property and equipment is artwork with a value of \$5,084 (2017 - \$5,084) that are not subject to amortization.

## 8. Accounts payable and accrued liabilities

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Accounts payable to third parties	<b>688</b>	578
Accrued liabilities to related parties (see Note 14)	-	13,300
Accrued liabilities to third parties	<b>35,682</b>	36,170
<b>Total accounts payable and accrued liabilities</b>	<b>36,370</b>	50,048

# Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

December 31, 2018 and 2017

(expressed in Canadian dollars)

## 9. Redeemable preference shares

(a) *Authorized*

10,000 non-voting Series B preference shares

(b) *Issued*

	2018		2017	
	Shares	Amount	Shares	Amount
		\$		\$
Series B preference shares	4,000	102,400	4,000	100,000

The Series B preference shares have a 6% per annum cumulative dividend payable annually commencing December 31, 1993, are redeemable by the Company and retractable by the holder after five years from issue. The redemption price is \$10 per share plus any cumulative dividends. The Company may force conversion into common shares at the lower of \$5 per share and the current market value price per common share.

Included in the balance at December 31, 2018 are aggregate cumulative preference shares dividends in arrears of \$62,400 (2017 - \$60,000).

## 10. Capital stock and reserves

(a) *Authorized*

Unlimited voting common shares, no par value  
660 Series A non-voting preference shares, no par value with a 9% non-cumulative dividend

(b) *Issued and outstanding*

	2018		2017	
	Shares	Amount	Shares	Amount
		\$		\$
Common shares	6,171,703	3,578,374	6,006,703	3,546,413

On June 4, 2018, the Company issued 165,000 common shares to directors, officers and employees upon the exercise of stock options at an exercise price of \$0.10 per share for proceeds totalling \$16,500.

(c) *Options*

Under the 2005 stock option plan, the Company may grant options to its directors, officers, employees and consultants for up to 600,670 common shares. The exercise price of each option equals the market price of the Company's common shares on the trading day immediately preceding the grant date. Options under the plan vest immediately when granted.

# Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

December 31, 2018 and 2017

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## 10. Capital stock and reserves (continued)

### (c) Options (continued)

A summary of changes in outstanding stock options is as follows:

	Granted	Expiry	Outstanding	Weighted average exercise price \$
Outstanding, December 31, 2016			510,000	0.19
Expired			(330,000)	0.24
Outstanding, December 31, 2017			180,000	0.10
Exercised			(165,000)	0.10
Expired			(15,000)	0.10
Granted	June 5, 2018	June 5, 2023	200,000	0.30
Outstanding, December 31, 2018			200,000	0.30
Options exercisable at December 31, 2018			200,000	0.30

165,000 stock options with an exercise price of \$0.10 per common share were exercised by option holders on June 4, 2018.

15,000 stock options with an exercise price of \$0.10 per common share expired on June 4, 2018.

200,000 stock options outstanding as at December 31, 2018 with an exercise price of \$0.30 per common share expire on June 5, 2023.

Share-based compensation recognized during the period was \$41,200 (2017 - \$Nil).

The following assumptions were used for the Black-Scholes valuation of stock options granted during 2018:

	2018
Risk-free interest rate	2.12%
Expected life of options	5 years
Fair value per option granted	\$0.2060
Annualized volatility	87%
Dividend rate	0.00%

Annualized volatility is based on the historical volatility of the Company's common share price on the TSX Venture Exchange.

# Consolidated Firstfund Capital Corp.

## Notes to the consolidated financial statements

December 31, 2018 and 2017

(expressed in Canadian dollars)

### 11. Consolidated statements of accumulated other comprehensive loss

As a result of adoption to IFRS 9 as discussed under Note 2, the opening balance of accumulated other comprehensive income of \$(130,186) has been adjusted to retained earnings as at January 1, 2018.

	2018	2017
	\$	\$
Unrealized (losses)/gains on available-for-sale investments		
Balance, beginning of the year	(130,186)	(133,195)
Adjustment to AOCI for adoption of IFRS 9 (Note 2(b))	130,186	-
Restated Balance, beginning of the year	-	(133,195)
Net change during the year	-	3,009
Accumulated other comprehensive loss	-	(130,186)

### 12. Income taxes

The components of the income tax expense (recovery) are as follows:

	2018	2017
	\$	\$
Current tax expense		
Canada	-	-
Foreign	-	-
Deferred tax expense (recovery)		
Canada	52,496	6,500
Foreign	-	-
	52,496	6,500

The reconciliation of income taxes computed at the statutory tax rate to the Company's effective income tax rate is as follows:

	2018	2017
	\$	\$
Income before income taxes	947,244	214,436
Statutory tax rate	27.00%	26.00%
Income tax recovery based on statutory income tax rate	255,756	55,753
Permanent differences	13	(565)
Change in unrecognized deferred tax assets	(59,321)	(19,318)
Rate difference on capital items	(128,289)	-
Other	(11,523)	(29,370)
Income tax expense (recovery)	56,636	6,500

# Consolidated Firstfund Capital Corp.

## Notes to the consolidated financial statements

December 31, 2018 and 2017

(expressed in Canadian dollars)

### 12. Income taxes (continued)

Significant components of deferred income tax liability are as follows:

	2018	2017
	\$	\$
Net capital loss carryforward	49,395	68,828
Non-capital loss carryforward	146,265	149,916
Depreciable property and equipment	2,517	4,700
Eligible capital expenditures	2,165	-
Investments	(98,346)	135,289
Redeemable preference shares	16,848	-
Unrecognized deferred tax assets	(172,880)	(356,133)
Total deferred income tax asset (liability)	(54,036)	2,600

During the year, the Company utilized \$Nil in non-capital losses as it had taxable income. After application of these losses, taxable income for the period was \$Nil. The Company anticipates profitable operations in the following year from its financial consulting services. As a result, the Company expects to be able to utilize a portion of its non-capital losses. A deferred income tax asset has been recognized for the current year-end given it is probable that a taxable profit will exist and the temporary difference associated with a portion of the non-capital losses will reverse in the foreseeable future.

#### (a) Non-capital losses

As at December 31, 2018, the Company has non-capital losses of approximately \$541,674 (2017 - \$574,768) which may be carried forward to apply against future years' income tax subject to final determination by taxation authorities. These non-capital loss carry-forwards will expire between 2028 and 2037.

#### (b) Capital losses

Accumulated capital losses of \$365,888 (2017 - \$529,463) are available to be applied against future taxable capital gains. These capital losses may be carried forward indefinitely.

### 13. Additional information relating to the statement of cash flows

	2018	2017
	\$	\$
<i>Changes in non-cash operating working capital items</i>		
Accounts receivable	(8,453)	28,720
Prepaid expenses	(58)	(13)
Accounts payable and accrued liabilities	(13,678)	1,207
Amounts owing to related party	(1,009)	-
	(23,198)	29,914

During 2018 and 2017 no amounts were paid in respect of income taxes or interest and no interest revenue was collected.

# Consolidated Firstfund Capital Corp.

## Notes to the consolidated financial statements

December 31, 2018 and 2017

(expressed in Canadian dollars)

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### 14. Related party transactions

Amounts due to/from related parties which are included in accounts receivable and accounts payable as at December 31, 2018 and 2017 are as follows:

	2018	2017
Accounts Receivable:		
Management fees receivable from first company under common control	\$ 82,827	\$ 77,437
Receivable from second company under common control	44	50
Receivable from third company under common control	39	39
Receivable from company under significant influence	4,169	2,099
	<hr/> \$ 87,079	<hr/> \$ 79,625
Accounts Payable:		
Amounts owing to directors	\$ -	\$ 13,300

The amounts due to and from related parties listed above are unsecured, non-interest bearing and have no specific terms of repayment.

In addition to the above:

- (a) The amount owed to a related party of \$290,740 (2017 - \$316,749) is owed to a significant shareholder of the Company. This balance represents the outstanding amount of monies provided to the Company in 2010 and 2011 to fund operations and is unsecured, non-interest bearing, and has no specific terms of repayment. In addition, nominal incidental expenses of \$740 (2017 - \$1,749) owing to the shareholder were included in the balance in 2018. The shareholder has confirmed in writing that this balance will not be called within 15 months of the statement of financial position date. However, pursuant to IAS 1 this amount is presented as a current liability.
- (b) The full amount of long-term receivable of \$14,602 (2017 - \$14,602) is owing from a limited partnership under common control. The receivable is non-interest bearing, unsecured, with no specific terms of repayment. Although this receivable may be demanded the Company has no intention of doing so in the next 12 months and therefore presents it as a long-term receivable.

# Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

December 31, 2018 and 2017

(expressed in Canadian dollars)

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## 14. Related party transactions (continued)

The transactions during the year with related parties are as follows:

	2018	2017
Revenues:		
Management fees charged to first company under common control	\$ 311,060	\$ 311,520
Rental income from a company under significant influence	<u>6,000</u>	<u>6,000</u>
Fee income	<u>317,060</u>	317,520
Other income - fees charged to companies under common ownership for the use of photocopier	2,958	2,447
Expenses:		
Rent expense paid to a company under common control	\$ 35,160	\$ 35,160
Salaries and wages paid to an employee who is also a shareholder	30,000	30,000
Stock based compensation to an employee who is also a shareholder	6,180	-

The rent expense above is paid on a month-to-month basis with either party being able to terminate the agreement without any significant consequences.

In addition to these revenues and expenses, the Company incurs expenditures on behalf of entities under common control and is reimbursed. A total of \$6,034 expenses were charged to these related parties in 2018 (2017 - \$6,245).

Key management compensation:

Salaries and wages	\$ 90,000	\$ 90,000
Consulting fees	12,000	7,000
Stock based compensation	35,020	-
Directors' fees	<u>1,400</u>	<u>1,400</u>
	<u>\$138,420</u>	\$98,400

Key management comprises the CEO, CFO and directors of the Company.

All related party transactions were measured at the exchange amounts, which is the amount agreed to between the parties.

## 15. Management of capital

The Company's objectives of capital management are intended to safeguard the Company's ability to support its normal operating requirements on an ongoing basis. The capital of the Company consists of shareholder's equity and its redeemable preferred shares. To effectively manage its capital requirements, the Company has in place a planning and budgeting process to help determine the funds required to ensure it has the appropriate liquidity to meet the Company's operating and growth objectives. The Company expects its current capital resources, together with future cash flows from operations and continued financial support from its principal shareholder, are sufficient to support the Company's ability to operate on an ongoing basis.

# Consolidated Firstfund Capital Corp.

## Notes to the consolidated financial statements

December 31, 2018 and 2017

(expressed in Canadian dollars)

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### 16. Financial instruments

#### (a) Currency risk

Currency risk is the risk that the value of financial assets and liabilities will fluctuate due to changes in foreign currencies. The Company is exposed to currency risk primarily arising from sales and accounts receivable balances denominated in US dollars. During the year ended December 31, 2018, 98% (\$311,060) of the Company's fee income was denominated in US dollars (2017 - 98% (\$311,520)).

The statements of financial position include the following amounts expressed in Canadian dollars with respect to financial assets and liabilities for which cash flows are denominated in US dollars:

	2018	2017
Accounts receivable	82,827	77,437
Net statement of financial position exposure	82,827	77,437

A 10% strengthening (weakening) of the U.S. dollar against the Canadian currency would have increased (decreased) the Company's net income from these account balances by \$8,283 (2017 - \$7,744).

#### (b) Other price risk

The Company is exposed to equity price risks arising from its investment in the Vitality Products Inc. common shares that is measured at fair value through profit or loss.

#### (c) 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's principal cash requirements are for working capital needs. The Company uses its operating cash flows, cash balances, and support from its principal shareholder to maintain its liquidity.

#### (d) Credit risk

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause a financial loss. The financial instruments that subject the Company to credit risk consist primarily of cash, accounts receivable, long-term receivable and investment in preferred shares. The maximum amount of credit risk exposure is limited to the carrying amount of the balances in the financial statements.

The Company mitigates the risk associated with cash by dealing only with large financial institutions with good credit ratings. The Company applies the simplified approach to accounts receivable and recognizes a loss allowance provision based on lifetime expected credit losses (ECLs). The loss allowance provision is based on the Company's historical collection and loss experience and incorporates forward-looking factors, where appropriate.

# Consolidated Firstfund Capital Corp.

## Notes to the consolidated financial statements

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### 16. Financial instruments (continued)

#### (e) Fair value

IFRS requires disclosure of a three-level hierarchy for fair value measurements based upon transparency of inputs to the valuation of an asset or liability as of measurement date. The three levels of the fair value hierarchy are:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs that are other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices); and
- Level 3 - valuation techniques with unobservable market inputs (involves assumptions and estimates by management of how market participants would price the assets or liabilities).

The following table illustrates the classification of the Company's financial instruments within the fair value hierarchy as at December 31, 2018 and December 31, 2017:

	Classification <sup>(1)</sup>	Fair Value Hierarchy	December 31, 2018 Fair Value \$	December 31, 2017 Fair Value \$
Financial Assets:				
Cash	FVTPL	1	109,972	98,142
Investments in common shares	FVTPL	1	1,682,081	630,780
Investments in preference shares	FVTPL	1	38,000	139,014
Long-term receivable from related party	Amortized cost		14,602	14,602
Financial Liabilities:				
Redeemable preference shares	Amortized cost		102,400	100,000
Amounts owing to related party	Amortized cost		290,000	315,000

There were no transfers between Level 1, 2 and 3 in the year.

The fair values of cash, accounts receivable and accounts payable as at December 31, 2018 and December 31, 2017 approximate their carrying values due to the immediate or short-term maturity of these financial instruments.

The fair value of the long-term receivable from related party as at December 31, 2018 and December 31, 2017 approximates its carrying value as this balance is due on demand.

The fair value of the Company's investment in Vitality Products Inc. common shares is determined based on the closing share price of Vitality Products Inc. common shares on the date of the consolidated statement of financial position.

The fair value of the Company's investment in Vitality Products Inc. Series 3 preference shares is determined based on the dividend discount approach which uses inputs from historical financial information and assumptions on discount rates and payment of dividends.

# Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

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## 16. Financial instruments (continued)

(e) Fair value (continued)

The fair value of the Company's redeemable preference shares as at December 31, 2018 and December 31, 2017 approximates its carrying value due to the redemption feature of this obligation.

## 17. Segmented information

The Company and its subsidiaries operate in two geographic segments: Canada and United States. Revenue in Canada includes an unrealized gain of \$1,051,301 (2017 - \$175,216) on the investments measured at fair value through profit or loss. Revenue in the United States includes \$311,060 attributable to one customer (2017 - \$311,520).

Revenues and assets attributable to each geographic segment are as follows:

	As at or for the year ended December 31, 2018		
	Canada	US	Total
	\$	\$	\$
Revenues	959,248	311,060	1,270,308
Property and equipment	9,168	-	9,168

  

	As at or for the year ended December 31, 2017		
	Canada	US	Total
	\$	\$	\$
Revenues	183,663	311,520	495,183
Property and equipment	12,139	-	12,139

## 18. Weighted average shares outstanding

The number of basic shares outstanding and diluted common shares, calculated on a weighted average basis, is as follows:

	2018	2017
	#	#
Basic shares outstanding	6,171,703	6,006,703
Share options (dilutive effect of 200,000 options; 2017 - 180,000 options)	200,000	66,667
<b>Diluted shares</b>	<b>6,371,703</b>	<b>6,073,370</b>

At December 31, 2018, no options were antidilutive. At December 31, 2017, 113,333 options were antidilutive.