

Consolidated financial statements of

**Consolidated Firstfund
Capital Corp.**

December 31, 2019 and 2018

Consolidated Firstfund Capital Corp.

December 31, 2019 and 2018

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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 statements of financial position as at December 31, 2019 and December 31, 2018, and the consolidated statements of (loss) income, consolidated statements of changes in equity and consolidated statements 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, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years 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's accounts payable, accrued liabilities and amounts owing to related party exceeded its current assets by \$69,032 at December 31, 2019. As stated in Note 1, the Company is critically dependant on related parties for all of its revenues, its management, its premises, and much of its expenses paid to third parties. 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 22, 2020

Consolidated Firstfund Capital Corp.

Consolidated statements of financial position
years ended December 31, 2019 and 2018

(expressed in Canadian dollars)

	2019	2018
	\$	\$
Assets		
Current assets		
Cash	78,563	109,972
Accounts receivable (Notes 4 and 12)	6,407	88,771
Prepaid expenses	3,546	3,525
	88,516	202,268
Investments (Note 5)	1,369,647	1,720,081
Property and equipment (Note 6)	6,282	9,168
Long-term receivable from related party (Notes 4 and 12)	14,602	14,602
	1,479,047	1,946,119
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Notes 7 and 12)	37,311	36,370
Amounts owing to related party (Note 12)	120,237	290,740
Redeemable preference shares (Note 8)	104,800	102,400
	262,348	429,510
Deferred tax liability (Note 10)	17,721	54,036
	280,069	483,546
Shareholders' equity		
Capital stock (Note 9)	3,578,374	3,578,374
Reserves - equity settled employee benefits	197,436	197,436
Deficit	(2,576,832)	(2,313,237)
	1,198,978	1,462,573
	1,479,047	1,946,119

Approved and authorized by the Board on April 22, 2020

"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, 2019 and 2018

(expressed in Canadian dollars)

	2019	2018
	\$	\$
Revenue		
Fee income (Note 12)	324,438	317,060
Other income (Note 12)	2,985	2,961
Unrealized net (loss) gain on investments measured at fair value through profit or loss (Note 5)	(350,434)	950,287
	(23,011)	1,270,308
Expenses		
Salaries and benefits (Note 12)	130,689	137,950
Office, administration and rent (Note 12)	95,441	100,338
Professional fees	30,000	30,000
Consulting (Note 12)	12,000	12,000
Other	4,286	4,371
Foreign exchange loss (gain)	1,946	(5,291)
Travel and promotion	137	96
Share-based compensation (Notes 9 and 12)	-	41,200
	274,499	320,664
Other expense		
Accrued dividends on redeemable preference shares (Note 8)	(2,400)	(2,400)
	(2,400)	(2,400)
(Loss) income before income taxes	(299,910)	947,244
Income tax (recovery) expense (Note 10)	(36,315)	56,636
Net (loss) income and comprehensive (loss) income for the year	(263,595)	890,608
(Loss) earnings per share		
Basic and diluted	(0.04)	0.14
Weighted average number of common shares		
Basic (Note 16)	6,171,703	6,171,703
Diluted (Note 16)	6,171,703	6,371,703

Consolidated Firstfund Capital Corp.

Consolidated statements of changes in equity
years ended December 31, 2019 and 2018

(expressed in Canadian dollars)

	<u>Capital Stock</u>		Reserves	Deficit	Total
	Number	Amount	\$	\$	\$
		\$			
Balance at January 1, 2018	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
Balance at December 31, 2018	6,171,703	3,578,374	197,436	(2,313,237)	1,462,573
Net loss	-	-	-	(263,595)	(263,595)
Balance at December 31, 2019	6,171,703	3,578,374	197,436	(2,576,832)	1,198,978

Consolidated Firstfund Capital Corp.

Consolidated statements of cash flows years ended December 31, 2019 and 2018

(expressed in Canadian dollars)

	2019	2018
	\$	\$
Operating activities		
Net (loss) income for the year	(263,595)	890,608
Items not involving cash		
Depreciation	2,886	2,971
Share-based compensation	-	41,200
Accrual of dividend on redeemable preference shares	2,400	2,400
Unrealized net loss (gain) on revaluation of investments measured at fair value through profit or loss	350,434	(950,287)
Deferred income tax (recovery) expense	(36,315)	56,636
	55,810	43,528
Increase (decrease) in non-cash operating receivables and payables (Note 11)	82,781	(23,198)
	138,591	20,330
Financing activities		
Decrease in amounts owing to related party (Note 12)	(170,000)	(25,000)
Stock options exercised	-	16,500
	(170,000)	(8,500)
(Decrease) increase in cash position during the year	(31,409)	11,830
Cash, beginning of year	109,972	98,142
Cash, end of year	78,563	109,972

Additional information is presented in Note 11.

Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

December 31, 2019 and 2018

(expressed in Canadian dollars)

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. As at December 31, 2019, the total of Company's accounts payable and accrued liabilities and amounts owing to related party exceeded its current assets by \$69,032 (2018 - \$124,842). The Company's operating cash flows, for the year ended December 31, 2019, totaled to \$55,810 (2018 - \$43,528). However, as mentioned in Note 12, the Company is critically dependent on related parties for all of its revenues, its management, its premises, and much of its expenses that are paid to third parties. 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, 2019 and 2018 have been prepared by management, reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on April 22, 2020. Shortly thereafter, the financial statements are made available to shareholders.

(b) *New and amended standards and interpretations*

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.

Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

December 31, 2019 and 2018

(expressed in Canadian dollars)

2. Basis of presentation (continued)

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

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. This standard is applicable for annual periods beginning on or after January 1, 2019. Management has assessed this standard as not having any impact on the Company's financial statements.

(c) *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.

(d) *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.

(b) *Financial instruments*

Financial assets are initially recognized at fair value. Subsequent measurement of financial assets is at fair value through profit or loss, or amortized cost. 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 approaches 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 all financial liabilities, realized gains and losses are reported in income.

Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

December 31, 2019 and 2018

(expressed in Canadian dollars)

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

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 and accrued liabilities	Amortized cost
Amounts owing to related party	Amortized cost
Redeemable preference shares	Amortized cost

(i) Financial assets 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.

(ii) Amortized cost

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

(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

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.

Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

December 31, 2019 and 2018

(expressed in Canadian dollars)

3. Significant accounting policies (continued)

(c) *Impairment of financial assets (continued)*

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) *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 or loss.

(e) *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.

(f) *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.

(g) *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.

Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

December 31, 2019 and 2018

(expressed in Canadian dollars)

3. Significant accounting policies (continued)

g) Income taxes (continued)

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 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.

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.

(h) 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.

(i) 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 costs charged to various related parties under common control for printer use. Other income is recognized as income in the period in which the expenses are incurred.

Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

December 31, 2019 and 2018

(expressed in Canadian dollars)

3. Significant accounting policies (continued)

(j) *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.

(k) *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

Investment in Vitality Products Inc.'s preference shares do not trade in an active market and does not have quoted prices. 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.

Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

December 31, 2019 and 2018

(expressed in Canadian dollars)

3. Significant accounting policies (continued)

(k) Significant judgments and sources of estimation uncertainty (continued)

(i) Significant judgments (continued)

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.

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 10 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.

Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

December 31, 2019 and 2018

(expressed in Canadian dollars)

3. Significant accounting policies (continued)

(k) Significant judgments and sources of estimation uncertainty (continued)

(ii) Sources of estimation uncertainty (continued)

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, 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.

4. Accounts receivable

	2019	2018
	\$	\$
Current:		
Accounts receivable from related parties (see Note 12)	4,950	87,079
GST/HST receivable	1,457	1,692
Total current	6,407	88,771
Long-term receivable from related party (see Note 12)	14,602	14,602
Total receivables	21,009	103,373

5. Investments

	2019	2018
	\$	\$
Investments in Vitality Products Inc.:		
Common shares measured at fair value through profit or loss (a)	1,331,647	1,682,081
26,920 Retractable and redeemable preference shares measured at fair value through profit or loss (b)	38,000	38,000
	1,369,647	1,720,081

(a) Common shares

The Company owns 22.0% (2018 - 22.5%) 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 loss of \$350,434 in 2019 (2018 - unrealized gain of \$1,051,301).

Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

December 31, 2019 and 2018

(expressed in Canadian dollars)

5. Investments (continued)

(b) Preferred shares

The Company owns 100% (2018 - 100%) of the issued non-voting, redeemable Class "A" Preference Shares, Series 3 of Vitality Products Inc. which bear a 6% cumulative dividend on the par value of these shares. 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 Company to convert these preference shares and accumulated dividends to Vitality's common shares at a forced conversion price. The number of shares of Vitality that would be issued under forced conversion is determined using a price equal to the lesser of:

- the then-current market price of Vitality's common share and
- \$0.25 per preference share plus all unpaid dividends accrued on the preference shares thereon to the date of conversion.

Total unpaid dividends accrued on these shares are \$289,364 at December 31, 2019 (2018 - \$273,212).

This investment is measured at fair value through profit or loss which resulted in an unrealized gain of \$Nil in 2019 (2018 - unrealized loss of \$101,014).

6. Property and equipment

	Office furniture and equipment
	\$
Cost	
As at December 31, 2017	37,769
Additions	-
Disposals	(3,607)
As at December 31, 2018	34,162
Additions	-
Disposals	-
As at December 31, 2019	34,162
Accumulated depreciation	
As at December 31, 2017	25,630
Depreciation	2,971
Disposals	(3,607)
As at December 31, 2018	24,994
Depreciation	2,886
Disposals	-
As at December 31, 2019	27,880
Net book value	
As at December 31, 2018	9,168
As at December 31, 2019	6,282

Included in property and equipment is artwork with a carrying amount of \$5,084 (2018 - \$5,084) that are not subject to amortization.

Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

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7. Accounts payable and accrued liabilities

	2019	2018
	\$	\$
Accounts payable to third parties	381	688
Accrued liabilities to related parties (see Note 12)	1,400	-
Accrued liabilities to third parties	35,530	35,682
Total accounts payable and accrued liabilities	37,311	36,370

8. Redeemable preference shares

(a) Authorized

10,000 non-voting Series B preference shares

(b) Issued

	2019		2018	
	Shares	Amount	Shares	Amount
		\$		\$
Series B preference shares	4,000	104,800	4,000	102,400

The Series B preference shares have a 6% per annum cumulative dividend payable annually on the par value 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 the holder to convert these shares and accumulated dividends into the Company's common shares at a forced conversion price. The number of shares that would be issued under forced conversion is based on a price that is the lesser of:

- \$5 per share plus all unpaid dividends and
- Then-current market price of the Company's common share.

Included in the balance at December 31, 2019 are aggregate cumulative preference shares dividends in arrears of \$64,800 (2018 - \$62,400).

9. 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

	2019		2018	
	Shares	Amount	Shares	Amount
		\$		\$
Common shares	6,171,703	3,578,374	6,171,703	3,578,374

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9. Capital stock and reserves (continued)

(b) Issued and outstanding (continued)

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.

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

	Granted	Expiry	Outstanding	Weighted average exercise price
				\$
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
Outstanding, December 31, 2019			200,000	0.30
Options exercisable at December 31, 2019			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, 2019 with an exercise price of \$0.30 per common share expire on June 5, 2023.

Share-based compensation recognized during the period was \$Nil (2018 - \$41,200).

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9. Capital stock and reserves (continued)

(c) Options (continued)

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.

10. Income taxes

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

	2019	2018
	\$	\$
Current tax expense		
Canada	13,225	-
Foreign	-	-
Deferred tax (recovery) expense		
Canada	(49,540)	56,636
Foreign	-	-
	(36,315)	56,636

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

	2019	2018
	\$	\$
(Loss) income before income taxes	(299,910)	947,244
Statutory tax rate	27.00%	27.00%
Income tax (recovery) expense based on statutory income tax rate	(80,976)	255,756
Other than temporary differences	19	13
Change in valuation allowance on deferred tax assets	870	(59,321)
Rate difference on capital items	47,309	(128,289)
Other	(3,537)	(11,523)
Income tax (recovery) expense	(36,315)	56,636

Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

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10. Income taxes (continued)

Significant components of deferred income tax liability are as follows:

	2019	2018
	\$	\$
Net capital loss carryforward	52,944	49,395
Non-capital loss carryforward	133,027	146,265
Depreciable fixed assets	2,234	2,517
Eligible capital expenditures	2,013	2,165
Investments	(55,177)	(102,486)
Valuation allowance on deferred income tax asset	(152,762)	(151,892)
Total deferred income tax (liability) asset	(17,721)	(54,036)

During the year, the Company utilized \$48,982 (2018 - \$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, 2019, the Company has non-capital losses of approximately \$492,692 (2018 - \$541,674) 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 \$392,178 (2018 - \$392,178) are available to be applied against future taxable capital gains. These capital losses may be carried forward indefinitely.

11. Additional information relating to the statement of cash flows

	2019	2018
	\$	\$
<i>Changes in non-cash operating receivables and payables</i>		
Accounts receivable	82,364	(8,453)
Prepaid expenses	(21)	(58)
Accounts payable and accrued liabilities	941	(13,678)
Amounts owing to related party	(503)	(1,009)
	82,781	(23,198)

During 2019 and 2018 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

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12. Related party transactions

Amounts due to/from related parties which are included in accounts receivable and accounts payable as at December 31, 2019 and 2018 are as follows:

	2019	2018
Accounts receivable:		
Management fees receivable from first company under common control	\$ 1,365	\$ 82,827
Receivable from second company under common control	49	44
Receivable from third company under common control	39	39
Receivable from company under significant influence	3,497	4,169
	<hr/> \$ 4,950	<hr/> \$ 87,079
Accounts payable:		
Amounts owing to directors	\$ 1,400	\$ -

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 \$120,237 (2018 - \$290,740) 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 \$237 (2018 - \$740) owing to the shareholder were included in the balance in 2019.
- (b) The full amount of long-term receivable of \$14,602 (2018 - \$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

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12. Related party transactions (continued)

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

	2019	2018
Revenues:		
Management fees charged to first company under common control	\$ 318,438	\$ 311,060
Rental income from a company under significant influence	<u>6,000</u>	<u>6,000</u>
Fee income	<u>324,438</u>	317,060
Other income - fees charged to companies under common ownership for the use of photocopier	2,982	2,958
Expenses:		
Rent expense paid to a company under common control	\$ 61,796	\$ 60,882
Included in salaries and benefits, salaries paid to an employee who is also a shareholder	30,000	30,000
Share-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. Total rent expense comprises rent for office premises of \$35,160 (2018 - \$35,160), property taxes of \$11,312 (2018 - \$10,900) and property maintenance fees of \$15,324 (2018 - \$14,822).

In addition to these revenues and expenses, the Company makes payments to third parties on behalf of entities under common control. A total of \$16,356 was paid to third parties and then charged to these related parties for reimbursement in 2019 (2018 - \$17,973).

Key management compensation:

Salaries and wages	\$ 90,000	\$ 90,000
Consulting fees	12,000	12,000
Share-based compensation	-	35,020
Directors' fees	<u>1,400</u>	<u>1,400</u>
	<u>\$ 103,400</u>	<u>\$ 138,420</u>

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

Common control above is established as all related parties are commonly controlled by the Estate of William Neil Grant.

13. 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, 2019 and 2018

(expressed in Canadian dollars)

14. 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 currency exchange rates. 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, 2019, 98% (\$318,438) of the Company's fee income was denominated in US dollars (2018 - 98% (\$311,060)).

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:

	2019	2018
Accounts receivable	1,365	82,827
Net statement of financial position exposure	1,365	82,827

A 10% strengthening (weakening) of the U.S. dollar against the Canadian currency would have decreased (increased) the Company's net loss from these account balances by \$137 (2018 - \$8,283).

(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.

Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

December 31, 2019 and 2018

(expressed in Canadian dollars)

14. 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, 2019 and December 31, 2018:

	Classification ⁽¹⁾	Fair Value Hierarchy	December 31, 2019 Fair Value	December 31, 2018 Fair Value
			\$	\$
Financial assets:				
Cash	FVTPL	1	78,563	109,972
Investment in common shares	FVTPL	1	1,331,647	1,682,081
Investment in preference shares	FVTPL	3	38,000	38,000
Long-term receivable from related party	Amortized cost		14,602	14,602
Financial liabilities:				
Redeemable preference shares	Amortized cost		104,800	102,400
Amounts owing to related party	Amortized cost		120,000	290,000

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, 2019 and December 31, 2018 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, 2019 and December 31, 2018 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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(expressed in Canadian dollars)

14. Financial instruments (continued)

(e) Fair value (continued)

The following table shows the valuation technique used in measuring the fair value of the investment in Vitality Product Inc's Series 3 preference shares:

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Dividend discount model: The valuation model considers the present value of future dividend payments on this investment discounted using risk-adjusted discount rates.	- Expected dividend payments beginning in 10 years including catch-up dividend payment received in 10 years. - Risk-adjusted discount rate of 25%.	The estimated fair value would increase (decrease) if: - Expected dividend payment would take less (more) time than 10 years. - Risk-adjusted discount rate was lower (higher) than 25%.

The fair value of the Company's redeemable preference shares as at December 31, 2019 and December 31, 2018 approximates its carrying value due to the redemption feature of this obligation.

15. Segmented information

The Company and its subsidiaries operate in two geographic segments: Canada and United States. Revenue in Canada includes an unrealized loss of \$350,434 (2018 - unrealized gain of \$950,287) on the investments measured at fair value through profit or loss. Revenue in the United States includes \$318,438 attributable to one customer (2018 - \$311,060).

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

	As at or for the year ended December 31, 2019		
	Canada	US	Total
	\$	\$	\$
Revenues	(341,449)	318,438	(23,011)
Property and equipment	6,282	-	6,282

	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

Consolidated Firstfund Capital Corp.

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16. Weighted average shares outstanding

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

	2019	2018
	#	#
Basic shares outstanding	6,171,703	6,171,703
Share options (dilutive effect of 200,000 options; 2018 - 200,000 options)	-	200,000
Diluted shares	6,171,703	6,371,703

At December 31, 2019, 200,000 options were antidilutive. At December 31, 2018, no options were antidilutive.

17. Subsequent Events

As stated in Note 5, the Company holds an investment in Vitality Product Inc.'s common shares. At December 31, 2019, Vitality's common shares were trading at \$0.19 per share. Subsequent to year-end, due to changes in the economy from the Covid-19 crisis, the price of Vitality's common shares has fallen significantly. As a result of this decrease, the Company's investment in Vitality's common shares has decreased significantly.