

Consolidated financial statements of

**Consolidated Firstfund
Capital Corp.**

December 31, 2020 and 2019

Consolidated Firstfund Capital Corp.

December 31, 2020 and 2019

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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, 2020 and December 31, 2019, 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, 2020 and December 31, 2019, 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 Company is critically dependent 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 26, 2021

Consolidated Firstfund Capital Corp.

Consolidated statements of financial position years ended December 31, 2020 and 2019

(expressed in Canadian dollars)

	2020	2019
	\$	\$
Assets		
Current assets		
Cash	109,311	78,563
Accounts receivable (Notes 4 and 12)	6,764	6,407
Prepaid expenses	3,446	3,546
	119,521	88,516
Investments (Note 5)	1,019,214	1,369,647
Deferred tax asset (Note 10)	42,879	-
Property and equipment (Note 6)	5,530	6,282
Long-term receivable from related party (Notes 4 and 12)	14,602	14,602
	1,201,746	1,479,047
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Notes 7 and 12)	38,798	37,311
Amounts owing to related party (Note 12)	80,771	120,237
Redeemable preference shares (Note 8)	107,200	104,800
	226,769	262,348
Deferred tax liability (Note 10)	-	17,721
	226,769	280,069
Shareholders' equity		
Capital stock (Note 9)	3,578,374	3,578,374
Reserves - equity settled employee benefits	197,436	197,436
Deficit	(2,800,833)	(2,576,832)
	974,977	1,198,978
	1,201,746	1,479,047

Nature and continuance of operations (Note 1)

Approved and authorized by the Board on April 26, 2021

"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, 2020 and 2019

(expressed in Canadian dollars)

	2020	2019
	\$	\$
Revenue		
Fee income (Note 12)	327,888	324,438
Other income (Note 12)	3,892	2,985
Unrealized net loss on investments measured at fair value through profit or loss (Note 5)	(350,433)	(350,434)
	(18,653)	(23,011)
Expenses		
Salaries and benefits (Note 12)	128,613	130,689
Office, administration and rent (Note 12)	88,484	95,441
Professional fees	30,000	30,000
Consulting (Note 12)	12,000	12,000
Foreign exchange loss	2,299	1,946
Other	2,152	4,286
Travel and promotion	-	137
	263,548	274,499
Other expense		
Accrued dividends on redeemable preference shares (Note 8)	(2,400)	(2,400)
	(2,400)	(2,400)
Loss before income taxes	(284,601)	(299,910)
Income tax (recovery) expense (Note 10)	(60,600)	(36,315)
Net loss and comprehensive loss for the year	(224,001)	(263,595)
Loss per share		
Basic and diluted	(0.04)	(0.04)

Consolidated Firstfund Capital Corp.

Consolidated statements of changes in equity
years ended December 31, 2020 and 2019

(expressed in Canadian dollars)

	<u>Capital Stock</u>		Reserves	Deficit	Total
	Number	Amount	\$	\$	\$
		\$			
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
Net loss	-	-	-	(224,001)	(224,001)
Balance at December 31, 2020	6,171,703	3,578,374	197,436	(2,800,833)	974,977

Consolidated Firstfund Capital Corp.

Consolidated statements of cash flows years ended December 31, 2020 and 2019

(expressed in Canadian dollars)

	2020	2019
	\$	\$
Operating activities		
Net loss for the year	(224,001)	(263,595)
Items not involving cash		
Depreciation	752	2,886
Accrual of dividend on redeemable preference shares	2,400	2,400
Unrealized net loss on revaluation of investments measured at fair value through profit or loss	350,433	350,434
Deferred income tax (recovery) expense	(60,600)	(36,315)
	68,984	55,810
Increase in non-cash operating receivables and payables (Note 11)	1,764	82,781
	70,748	138,591
Financing activities		
Decrease in amounts owing to related party (Note 12)	(40,000)	(170,000)
	(40,000)	(170,000)
Increase (Decrease) in cash position during the year	30,748	(31,409)
Cash, beginning of year	78,563	109,972
Cash, end of year	109,311	78,563

Additional information is presented in Note 11.

Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

December 31, 2020 and 2019

(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. However, as indicated 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.

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The Company has assessed the impact of COVID-19 in current and future operations and financial conditions.

The Company continues to operate from office following the provincial guidelines on social distancing and safe work environments. The Company expects to continue working from office thus operations have not been affected.

Financial conditions have not deteriorated as the Company has been able to continue generating the monthly revenue from rental and managerial activities.

The Company relies on related party financing which bear no interest or covenants, did not apply for government grants or loans, and has enough cash to continue operating for 6 months in the absence of cash inflows. As a result, there are no expected foreseeable events that could negatively impact the Company to continue operating despite the extended impact of the COVID-19 pandemic.

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").

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, 2020 and 2019 were prepared by management, reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on April 26, 2021.

(b) *Basis of measurement*

The Company's consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets and financial liabilities to fair value.

Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

December 31, 2020 and 2019

(expressed in Canadian dollars)

2. Basis of presentation (continued)

(c) *New and amended standards and interpretations*

At the date of authorization of the consolidated financial statements, the IASB and IFRIC have not issued any new and revised standards and interpretations which could be applicable to the Company and are not yet effective for the relevant reporting period. The Company does not early adopt any new standards or amendments and interpretations.

(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 demand deposits. The Company is not exposed to significant credit or interest rate risk although cash is held in excess of federally insured limits with a major financial institution.

(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 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. For all financial liabilities, realized gains and losses are reported in income.

Refer to Note 14 for details on classification and measurement of 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. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the probability-weighted cash flows that the Company expects to receive 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.

Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

December 31, 2020 and 2019

(expressed in Canadian dollars)

3. Significant accounting policies (continued)

(d) *Investments*

The Company accounts for its investment in a company 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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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.

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 temporary difference can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that it could be utilized. Deferred income tax assets and deferred income tax liabilities are offset if the conditions to do so are met.

Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

December 31, 2020 and 2019

(expressed in Canadian dollars)

3. Significant accounting policies (continued)

(h) *Foreign currency translation*

Transactions denominated in US dollars are recorded using the exchange rate as at date of transaction. Monetary assets and liabilities denominated in US dollars are translated at the period end exchange rate. Exchange gains and losses are included in the statement of income and comprehensive income.

(i) *Revenue recognition*

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 use of the photocopier. Other income is recognized as income in the period in which the expenses are incurred.

(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 by assuming that outstanding stock options were exercised, if dilutive.

(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 affecting only that period or in the current and future periods, if applicable.

(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.

Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

December 31, 2020 and 2019

(expressed in Canadian dollars)

3. Significant accounting policies (continued)

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

(i) Significant judgments (continued)

Fair value of financial instruments

Vitality Products Inc.'s preference shares do not trade in an active market and do not have quoted prices. Refer to Note 14 for detail on computing the fair value of this investment.

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.

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

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. The calculation incorporates forward-looking information, which requires significant judgment to determine the forward-looking variables that are relevant 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, 2020 and 2019

(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.

(l) Leases

Refer to Note 12 for election of recognition exemption on short-term leases.

4. Accounts receivable

	2020	2019
	\$	\$
Current:		
Accounts receivable from related parties (see Note 12)	5,884	4,950
GST/HST receivable	880	1,457
Total current	6,764	6,407
Long-term receivable from related party (see Note 12)	14,602	14,602
Total receivables	21,366	21,009

5. Investments

	2020	2019
	\$	\$
Investments in Vitality Products Inc.:		
Common shares measured at fair value through profit or loss (a)	981,214	1,331,647
26,920 Retractable and redeemable preference shares measured at fair value through profit or loss (b)	38,000	38,000
	1,019,214	1,369,647

(a) Common shares

The Company owns 19.9% (2019 - 22.0%) of the issued and outstanding common shares of Vitality Products Inc. which resulted in an unrealized loss of \$350,433 in 2020 (2019 - \$350,434).

Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

December 31, 2020 and 2019

(expressed in Canadian dollars)

5. Investments (continued)

(b) Preferred shares

The Company owns 100% (2019 - 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 \$305,516 at December 31, 2020 (2019 - \$289,364).

This investment is measured at fair value through profit or loss which resulted in an unrealized gain of \$Nil in 2020 (2019 - \$Nil).

6. Property and equipment

	Office furniture and equipment
	\$
Cost	
As at December 31, 2018	34,162
Additions	-
Disposals	-
As at December 31, 2019	34,162
Additions	-
Disposals	(7,997)
As at December 31, 2020	26,165
Accumulated depreciation	
As at December 31, 2018	24,994
Depreciation	2,886
Disposals	-
As at December 31, 2019	27,880
Depreciation	752
Disposals	(7,997)
As at December 31, 2020	20,635
Net book value	
As at December 31, 2019	6,282
As at December 31, 2020	5,530

Included in property and equipment is artwork with a carrying amount of \$5,084 (2019 - \$5,084) that is not subject to amortization.

Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

December 31, 2020 and 2019

(expressed in Canadian dollars)

7. Accounts payable and accrued liabilities

	2020	2019
	\$	\$
Accounts payable to third parties	519	381
Accounts payable to related parties (see Note 12)	2,800	1,400
Accrued liabilities to third parties	35,479	35,530
Total accounts payable and accrued liabilities	38,798	37,311

8. Redeemable preference shares

(a) Authorized

10,000 non-voting Series B preference shares

(b) Issued

	2020		2019	
	Shares	Amount	Shares	Amount
		\$		\$
Series B preference shares	4,000	107,200	4,000	104,800

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, 2020 are aggregate cumulative preference shares dividends in arrears of \$67,200 (2019 - \$64,800).

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

	2020		2019	
	Shares	Amount	Shares	Amount
		\$		\$
Common shares	6,171,703	3,578,374	6,171,703	3,578,374

Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

December 31, 2020 and 2019

(expressed in Canadian dollars)

9. Capital stock and reserves (continued)

(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.

200,000 stock options outstanding and exercisable as at December 31, 2020, December 31, 2019 and 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 \$Nil (2019 - \$Nil).

10. Income taxes

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

	2020	2019
	\$	\$
Current tax expense	18,950	13,225
Deferred tax (recovery) expense	(79,550)	(49,540)
	(60,600)	(36,315)

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

	2020	2019
	\$	\$
Loss before income taxes	(284,601)	(299,910)
Statutory tax rate	27.00%	27.00%
Income tax (recovery) expense based on statutory income tax rate	(76,842)	(80,976)
Permanent differences	-	19
Change in valuation allowance on deferred tax assets	(33,011)	870
Rate difference on capital items	47,309	47,309
Other	1,944	(3,537)
Income tax (recovery) expense	(60,600)	(36,315)

Consolidated Firstfund Capital Corp.

Notes to the consolidated financial statements

December 31, 2020 and 2019

(expressed in Canadian dollars)

10. Income taxes (continued)

Significant components of deferred income tax liability are as follows:

	2020	2019
	\$	\$
Net capital loss carryforward	52,944	52,944
Non-capital loss carryforward	114,077	133,027
Depreciable fixed assets	1,606	2,234
Eligible capital expenditures	1,872	2,013
Investments	(7,869)	(55,177)
Valuation allowance on deferred income tax asset	(119,751)	(152,762)
Total deferred income tax (liability) asset	42,879	(17,721)

During the year, the Company utilized \$70,184 (2019 - \$48,982) in non-capital losses as it had taxable income. After application of these losses, taxable income for the period was \$Nil. The Company anticipates taxable profits in future years 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, 2020, the Company has non-capital losses of approximately \$422,508 (2019 - \$492,692) 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 (2019 - \$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

	2020	2019
	\$	\$
<i>Changes in non-cash operating receivables and payables</i>		
Accounts receivable	(357)	82,364
Prepaid expenses	100	(21)
Accounts payable and accrued liabilities	1,487	941
Amounts owing to related party	534	(503)
	1,764	82,781

During 2020 and 2019 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, 2020 and 2019 are as follows:

	2020	2019
Accounts receivable:		
Management fees receivable from first company under common control	\$ 734	\$ 1,365
Receivable from second company under common control	47	49
Receivable from third company under common control	39	39
Receivable from company under significant influence	5,064	3,497
	<hr/> \$ 5,884	<hr/> \$ 4,950
Accounts payable:		
Amounts owing to directors	\$ 2,800	\$ 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 \$80,771 (2019 - \$120,237) 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 \$771 (2019 - \$237) owing to the shareholder were included in the balance in 2020.
- (b) The long-term receivable of \$14,602 (2019 - \$14,602) is owing from a limited partnership under common control. The receivable is non-interest bearing, unsecured, with no specific terms of repayment. Though 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.

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

	2020	2019
Revenues:		
Management fees charged to first company under common control	\$ 321,888	\$ 318,438
Rental income from a company under significant influence	6,000	<u>6,000</u>
Fee income	327,888	324,438
Other income - fees charged to companies under common ownership for use of the photocopier	3,892	2,982
Expenses:		
Rent expense paid to a company under common control	58,076	61,796
Included in salaries and benefits, salaries paid to an employee who is also a shareholder	30,000	30,000

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12. Related party transactions (continued)

The rent expense above is a lease paid on a month-to-month basis with either party being able to terminate the agreement without any significant consequences therefore applying the recognition exemption for short-term leases in accordance with IFRS 16.05 to 16.08. Total rent expense comprises rent for office premises of \$35,160 (2019 - \$35,160), property taxes of \$9,133 (2019 - \$11,312) and property maintenance fees of \$13,783 (2019 - \$15,324).

In addition to these revenues and expenses, the Company makes payments to third parties on behalf of entities under common control. A total of \$17,114 was paid to third parties and then charged to these related parties for reimbursement in 2020 (2019 - \$16,356).

	2020	2019
Key management compensation:		
Salaries and wages	\$ 90,000	\$ 90,000
Consulting fees	12,000	12,000
Directors' fees	<u>1,400</u>	<u>1,400</u>
	\$ 103,400	\$ 103,400

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.

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, 2020, \$321,888 (2019 - \$318,438) of fee income and \$734 (2019 - \$1,365) of account receivables were denominated in US dollars.

(b) Other price risk

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

A 10% increase/(decrease) in the fair market value of Vitality's common shares would increase/(decrease) the gains/(losses) of the Company by \$98,121 (2019 - \$133,165). The analysis is based on the assumption that the equity price change by 10% with all other variables held constant and all the equity instruments moved according to the historical correlation with the index.

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Notes to the consolidated financial statements

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14. Financial instruments (continued)

(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.

(e) *Fair value*

The table below illustrates recurring assets and liabilities carried at fair value as at December 31, 2020 and December 31, 2019. The different levels are defined as follows:

- 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.

		Fair Value	December 31,	December 31,
	Classification	Hierarchy	2020	2019
			Fair Value	Fair Value
			\$	\$
Financial assets:				
Cash	FVTPL	1	109,311	78,563
Accounts receivable	Amortized cost		6,764	6,407
Investment in common shares	FVTPL	1	981,214	1,331,647
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		107,200	104,800
Amounts owing to related party	Amortized cost		80,000	120,000

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14. Financial instruments (continued)

(e) Fair value (continued)

The fair values of cash, accounts receivable and accounts payable as at December 31, 2020 and December 31, 2019 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, 2020 and December 31, 2019 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 level 3 valuation technique. The following table shows the valuation technique used in measuring the fair value of the investment in Vitality Products 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.	<ul style="list-style-type: none">- 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: <ul style="list-style-type: none">- Expected dividend payment would take less (more) time than 10 years.- Risk-adjusted discount rate was lower (higher) than 25%.

A change of +5% in the adjusted discount rate and +10 in the number of years expected for dividend payments to begin as at December 31, 2020, would result in a downward adjustment of -\$36,000 (-95%) of the fair value of the investment in preferred shares.

The fair value of the Company's redeemable preference shares as at December 31, 2020 and December 31, 2019 approximates its carrying value due to the redemption feature of this obligation.

Consolidated Firstfund Capital Corp.

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15. Segmented information

The Company and its subsidiaries operate in a single segment in Canada which is financial consulting relating to real estate development and venture capital. All corporate assets are located in Canada.

The following table illustrates revenue earned from external customers located in Canada and United States. Total revenue excludes income (loss) on equity investments in the Canadian geographical area measured at fair value through profit or loss.

	As at or for the year ended December 31, 2020		
	Canada	US	Total
	\$	\$	\$
Revenue			
Fee income	6,000	321,888	327,888
Other income	3,523	369	3,892
Total revenue	9,523	322,257	331,780
Property and equipment	5,530	-	5,530

	As at or for the year ended December 31, 2019		
	Canada	US	Total
	\$	\$	\$
Revenue			
Fee income	6,000	318,438	324,438
Other income	2,437	548	2,985
Total revenue	8,437	318,986	327,423
Property and equipment	6,282	-	6,282

For the year ended December 31, 2020, revenue from one customer represents 97% (2019 - 97%) of the total revenue.

16. Weighted average shares outstanding

At December 31, 2020, 200,000 (2019 - 200,000) options were antidilutive. There were 6,171,703 (2019 - 6,171,703) basic shares outstanding calculated on a weighted average basis.