# Starrex International Ltd.

## Consolidated Financial Statements

## December 31, 2018 and 2017

## Expressed in U.S. Dollars

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*December 31, 2018 and 2017*

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## Independent Auditor's Report

To the Shareholders of Starrex International Ltd.

### Opinion

We have audited the consolidated financial statements of Starrex International Ltd. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of loss and comprehensive loss, 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 Company as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### Basis for opinion

We conducted our audit 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 Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other information

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

Our opinion on the consolidated financial statements does not cover the other information and we do not and will 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 the 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 IFRS, 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 Company'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 Company or cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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 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 judgement and maintain professional skepticism throughout the audit. We also:

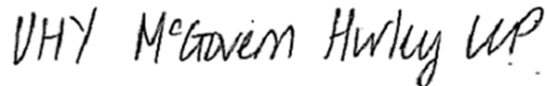
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of 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 Company'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 Company'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 Company 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.

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 of the audit resulting in this independent auditor's report is Chris Milios.

UHY McGovern Hurley LLP



Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
April 29, 2019

**Starrex International Ltd.**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

Expressed in U.S. Dollars

| | | December 31, 2018 | | December 31, 2017 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Cash and cash equivalents | **$** | **160,345** | $ | 572,548 |
| Accounts receivable (Notes 7 and 9) | | **462,316** | | 279,185 |
| Prepaid expenses | | **50,725** | | 21,172 |
| Notes receivable (Note 10) | | **-** | | 583,617 |
| | | **673,386** | | 1,456,522 |
| **Non-current assets** | | | | |
| Property and equipment, net of depreciation (Note 4) | **$** | **144,722** | | 192,598 |
| Intangible assets (Note 5) | | **1,423,958** | | 486,115 |
| Goodwill (Note 8) | | **915,288** | | 621,132 |
| **Total Assets** | **$** | **3,157,354** | $ | 2,756,367 |
| **LIABILITIES** | | | | |
| **Current Liabilities** | | | | |
| Accounts payable and accrued liabilities (Note 7) | **$** | **962,634** | $ | 750,683 |
| Contract liabilities (Note 11) | | **375,727** | | 77,714 |
| Note payable (Note 7 and 17) | | **602,370** | | - |
| | **$** | **1,940,731** | $ | 828,397 |
| **Long term liabilities** | | | | |
| Deferred tax liability (Note 15) | | **-** | | 101,102 |
| **Total liabilities** | **$** | **1,940,731** | $ | 929,499 |
| **Capital and reserves** | | | | |
| Share capital (Note 13) | | **6,779,711** | | 6,779,711 |
| Contributed surplus (Note 14) | | **431,541** | | 230,196 |
| Accumulated other comprehensive income | | **(261,534)** | | (261,534) |
| Deficit | | **(5,733,095)** | | (4,921,505) |
| **Total equity** | | **1,216,623** | | 1,826,868 |
| **Total equity and liabilities** | **$** | **3,157,354** | $ | 2,756,367 |

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

On behalf of the Board:

Signed: "Matthew D Hill"
Chairman

Signed: "Ronald Mann"
Director

**Starrex International Ltd.**

**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

For the fiscal years ended December 31, 2018 and 2017

Expressed in U.S. Dollars

| | | 2018 | | 2017 |
|---|---|---|---|---|
| **Income** | | | | |
| Revenue from contracts from customers (Note 12) | $ | **9,579,453** | $ | 7,560,613 |
| Management fee income | | **75,750** | | 14,180 |
| Interest income (Note 10) | | **9,644** | | 91,746 |
| | | **9,664,847** | | 7,666,539 |
| **Expenses** | | | | |
| Payroll expense | | **6,577,757** | | 6,113,150 |
| Credit bureau fees | | **1,318,305** | | - |
| Consumer tax report fees | | **31,133** | | - |
| General and administrative | | **1,579,403** | | 970,124 |
| Professional fees | | **142,992** | | 301,405 |
| Management and corporate services (Note 7) | | **330,560** | | 330,560 |
| Depreciation and amortization (Notes 4 and 5) | | **315,878** | | 219,850 |
| Shareholder services | | **38,662** | | 22,272 |
| Government, regulatory and filing fees | | **19,106** | | 18,252 |
| Share-based payments (Note 14) | | **138,345** | | - |
| Interest expense (Note 17) | | **28,138** | | 1,677 |
| Accretion expense (Note 17) | | **57,260** | | - |
| Impairment on note receivable (Note 10) | | **-** | | 516,383 |
| | | **10,577,539** | | 8,493,673 |
| **Loss before provision for income taxes** | | **(912,692)** | | (827,134) |
| Recovery of income taxes (Note 15) | | **(101,102)** | | - |
| **Net loss and comprehensive loss for the year** | | **(811,590)** | $ | (827,134) |
| **Basic and diluted loss per share** | $ | **(0.06)** | $ | (0.06) |
| **Weighted average number of common shares outstanding (Note 16)** | | **14,580,827** | | 14,485,211 |

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

## Starrex International Ltd.

### CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the fiscal years ended December 31, 2018 and 2017

Expressed in U.S. Dollars

| | Number of Shares | | Share Capital | | Contributed Surplus | | Deficit | | Accumulated Other Comprehensive Income | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance, December 31, 2016** | **14,480,827** | **$** | **6,745,651** | **$** | **247,226** | **$** | **(4,094,371)** | **$** | **(261,534)** | **$** | **2,636,972** |
| Exercise of options (Note 13) | 100,000 | | 34,060 | | (17,030) | | - | | - | | 17,030 |
| Net loss for the year | - | | - | | - | | (827,134) | | - | | (827,134) |
| **Balance, December 31, 2017** | **14,580,827** | **$** | **6,779,711** | **$** | **230,196** | **$** | **(4,921,505)** | **$** | **(261,534)** | **$** | **1,826,868** |
| Options granted (Note 14) | - | | - | | 138,345 | | - | | - | | 138,345 |
| Convertible note (Notes 17) | - | | - | | 63,000 | | - | | - | | 63,000 |
| Net loss for the year | - | | - | | - | | (811,590) | | - | | (811,590) |
| **Balance, December 31, 2018** | **14,580,827** | **$** | **6,779,711** | **$** | **431,541** | **$** | **(5,733,095)** | **$** | **(261,534)** | **$** | **1,216,623** |

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

## Starrex International, Ltd.

**Consolidated Statements of Cash Flows**

For the years ended December 31, 2018 and 2017

Expressed in U.S. Dollars

| | | **December 31, 2018** | | December 31, 2017 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Net loss for the year | **$** | **(811,590)** | $ | (827,134) |
| Items not affecting cash: | | | | |
| Depreciation and amortization | | **315,878** | | 219,850 |
| Share-based payments | | **138,345** | | - |
| Impairment of notes receivable | | **-** | | 516,383 |
| Recovery of deferred income tax | | **(101,102)** | | (67,868) |
| Accretion expense | | **57,260** | | - |
| Net change in non-cash working capital items relating to operating activities | | | | |
| Accounts receivable | | **(249,514)** | | (27,775) |
| Prepaid expenses | | **(29,553)** | | 50,159 |
| Accounts payable and accrued liabilities | | **211,951** | | 2,470 |
| Note Payable | | **28,110** | | - |
| Contract liabilities | | **298,012** | | (175,321) |
| Income tax payable | | **-** | | (16,000) |
| Cash used in operating activities | | **(142,203)** | | (325,235) |
| **Cash flows from investing activities** | | | | |
| Proceeds from note receivables | | **650,000** | | 884,036 |
| Purchase of property and equipment | | **-** | | (9,390) |
| Cash paid for acquisitition | | **(1,500,000)** | | - |
| Cash (used in) provided by investing activities | | **(850,000)** | | 874,646 |
| **Cash flows from financing activities** | | | | |
| Share issuance | | **-** | | 17,030 |
| Proceeds from notes payable | | **580,000** | | - |
| Principal repayment on notes payable | | **-** | | (91,867) |
| Cash provided by (used in) financing activities | | **580,000** | | (74,837) |
| (Decrease) increase in cash during the year | | **(412,203)** | | 474,573 |
| Cash and cash equivalents, beginning of year | | **572,548** | | 97,975 |
| Cash and cash equivalents, end of year | **$** | **160,345** | $ | 572,548 |

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

Supplemental Cash Flow Information (Note 19) -

## 1. Business of the Company

### Nature of Business

Starrex International Ltd. ("Starrex" or the "Company") was incorporated on October 2, 1982 pursuant to the Canada Business Corporation Act. The Company's address is 199 Bay Street, Suite 2200, Toronto, Ontario, M5L 1G4. The Company's primary business is to acquire, manage and grow companies in the United States active in mortgage, real estate and other financial sectors.

These consolidated financial statements were approved by the Board of Directors on April 29, 2019.

## 2. Significant Accounting Policies

### *Statement of Compliance*

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"), effective for the Company's reporting for the year ended December 31, 2018.

The accounting policies have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise noted.

### *Basis of Presentation*

These consolidated financial statements have been prepared on a going concern basis, under the historical cost convention. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Because of continuing operating losses and limited working capital, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing or to reach profitable levels of operation. Although management believes that the operations of the Company will be able to support the continued existence of the Company, it is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations. The consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. These adjustments could be material.

### *Principles of Consolidation*

These consolidated financial statements include the Company and its wholly-owned subsidiaries, Property Interlink, LLC, MFI Credit Solutions, LLC (see Note 3) and Reliable Valuation Service, LLC, a Wyoming limited liability company which was incorporated on June 13, 2018. All subsidiaries at December 31, 2018 are 100% owned, directly or indirectly, and controlled by the Company. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are included in the consolidated financial statements from the date control is obtained until the date control ceases. All intercompany balances, transactions, income, expenses, profits and losses, including unrealized gains and losses, have been eliminated upon consolidation.

## 2. Significant Accounting Policies – Continued

***Business Combinations***

A business acquisition is a transaction or other event in which control over one or more businesses is obtained. A business is an integrated set of activities and assets that are capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits. A business consists of inputs and processes applied to those inputs that have the ability to create outputs that provide a return to the Company and its shareholders. A business need not include all of the inputs and processes that were used by the acquiree to produce outputs if the business can be integrated with the inputs and processes of the Company to continue to produce outputs. If the integrated set of activities and assets is in the research and development stage, and thus, may not have outputs, the Company considers other factors to determine whether the set of activities and assets is a business.

In accordance with IFRS 3, business combinations are accounted for using the acquisition method whereby acquired assets and liabilities are recorded at fair value as of the date of acquisition with the excess of the purchase consideration over such fair value being recorded as goodwill and allocated to cash generating units. Cash generating units are the smallest identifiable group of assets, liabilities and associated goodwill that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Non-controlling interest in an acquisition may be measured either at fair value or at the non-controlling interest's proportionate share of the fair value of the acquiree's net identifiable assets.

If the fair value of the net assets acquired exceeds the purchase consideration, the difference is recognized immediately as a gain in profit or loss.

Acquisition related costs are expensed during the period in which they are incurred, except for the cost of debt or equity instruments issued in relation to the acquisition which is included in the carrying amount of the related instrument.

Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period will not exceed one year from the acquisition date.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

## 2. Significant Accounting Policies – Continued

### *Use of Estimates and Judgments*

The preparation of financial statements in accordance with International Financial Reporting Standards ("IFRS") requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Areas where estimates are significant to these consolidated financial statements are as follows:

a) Goodwill and other indefinite life intangible assets are tested for impairment annually or more frequently if there is an indication of impairment. The carrying value of intangible assets with definite lives (software, trade name, customer relationships, and non-compete agreements) and equipment is reviewed each reporting period to determine whether there is any indication of impairment. If the carrying amount of an asset exceeds its recoverable amount, the asset is impaired and an impairment loss is recognized in profit or loss. The assessment of fair values requires the use of estimates and assumptions related to future operating performance and discount rates, differences in these estimates and assumptions could have a significant impact on the consolidated financial statements.

b) Significant judgment is involved in the determination of useful life for the computation of depreciation of property and equipment and amortization of intangible assets. No assurance can be given that actual useful lives will not differ significantly from current assumptions.

c) Applying the acquisition method to business combinations requires each identifiable asset and liability to be measured at its acquisition date fair value. The excess, if any, of the fair value of consideration over the fair value of the net identifiable assets acquired is recognized as goodwill. The determination of acquisition date fair values often requires management to make assumptions and estimates about future events. The assumptions with respect to fair value of intangible assets require a high degree of judgment and include estimates for future operating performance, discount rates, technology migration factors and terminal value rates.

d) The Company's income tax expense, deferred tax assets and liabilities for unrecognized tax benefits reflects management's best estimate of current and future taxes to be paid. The Company is subject to income taxes in the United States and Canada. Significant judgments and estimates are required in the determination of the consolidated income tax expense.

### *Functional Currency*

Starrex International Ltd., the parent company, and its subsidiaries have a functional currency of the U.S. dollar ("USD"). This reflects the fact that the majority of the Company's business is influenced by an economic environment denominated in U.S. currency; as well, the Company earns revenues in USD. The presentation currency of these financial statements is USD.

Transactions denominated in foreign currencies (other than the functional currency) are recorded on initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at the end of each reporting period into the functional currency at the exchange rate at that date. Exchange differences, other than those capitalized to qualifying assets or recorded in equity in hedging transactions, are recognized in profit or loss. Non-monetary assets and liabilities measured at cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency using the exchange rate prevailing at the date when the fair value was determined.

## 2. Significant Accounting Policies – Continued

***Revenue Recognition***

*Appraisal Services*

Property Interlink, LLC manages residential appraisals and maintains all of the ordering, tracking, administrative duties, and details and ensures the timeliness of appraisals that are handled during a real estate mortgage transaction.

Customers contractually initiate appraisal requests with Property Interlink, LLC. Revenue is recognized from appraisal services when the requested appraisal report is provided to the customer and collection is reasonably assured. Unsatisfied contracts at the end of a reporting period are reported as deferred revenue. These contracts are at fixed prices.

*Management Fees*

During the course of business, Property Interlink, LLC charges a management fee for appraisals associated with loans. These management fees are recognized when the appraisal is ordered.

*Credit Reporting Services*

MFI Credit Solutions, LLC provides consumer credit reports to the real estate industry and consumer service companies. Revenue is derived primarily from mortgage banks and brokers.

Revenue is recognized from credit reporting services when the requested credit report is provided to the customer and collection is reasonably assured. Unsatisfied contracts, if any, at the end of a reporting period are reported as deferred revenue. Credit reports are delivered instantly upon request. These contracts are at fixed prices.

***Intangible Assets***

The Company's intangible assets consist of:

- Software licensed, acquired or developed;
- Proprietary software;
- Non-compete employment agreements;
- Customer relationships; and.
- Credit bureau repository codes.

The Company amortizes licensed software and proprietary software over its estimated useful life of 5 years on a straight-line basis. The Company amortizes non-compete employment agreements over the life of the agreement of 4-5 years. The Company amortizes its customer relationships over their estimated useful life of 5-10 years. The credit bureau repository codes are not amortized as they have an indefinite life.

Intangible assets are measured at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets acquired through business combinations are initially recognized at fair value, based on an allocation of the purchase price. The intangible assets are amortized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization methods of the intangible assets are reviewed at the end of each annual reporting period, with the effect of any changes in estimates being accounted for on a prospective basis.

## 2. Significant Accounting Policies – Continued

***Internally Generated Intangible Assets***

The Company recognizes expenditures on research activities as an expense in the year in which it incurs the expenditures. It recognizes an internally-generated intangible asset arising from development if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset for use or sale;
- the ability to use or sell the intangible asset;
- **how the intangible asset will generate probable future economic benefits;**
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditures attributable to the intangible asset during its development.

***Accounting policy under IFRS 9 applicable from January 1, 2018***

**Financial assets**

**Initial recognition and measurement**

Non-derivative financial assets within the scope of IFRS 9 are classified and measured as "financial assets at fair value", as either FVPL or FVOCI, and "financial assets at amortized costs", as appropriate. The Company determines the classification of financial assets at the time of initial recognition based on the Company's business model and the contractual terms of the cash flows.

All financial assets are recognized initially at fair value plus, in the case of financial assets not at FVPL, directly attributable transaction costs on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Financial assets with embedded derivatives are considered in their entirety when determining their classification at FVPL or at amortized cost. The Company has classified accounts receivable on provisionally priced sales as financial assets measured at FVPL. Other accounts receivable held for collection of contractual cash flows are measured at amortized cost.

**Subsequent measurement – financial assets at amortized cost**

After initial recognition, financial assets measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate ("EIR") method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statements of loss.

**Subsequent measurement – financial assets at FVPL**

Financial assets measured at FVPL include financial assets management intends to sell in the short term and any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial assets measured at FVPL are carried at fair value in the consolidated statements of financial position with changes in fair value recognized in other income or expense in the consolidated statements of loss.  The Company does not measure any financial assets at FVPL.

## 2. Significant Accounting Policies – Continued

**Subsequent measurement – financial assets at FVOCI**

Financial assets measured at FVOCI are non-derivative financial assets that are not held for trading and the Company has made an irrevocable election at the time of initial recognition to measure the assets at FVOCI. The Company does not measure any financial assets at FVOCI.

After initial measurement, investments measured at FVOCI are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income or loss in the consolidated statements of comprehensive loss. When the investment is sold, the cumulative gain or loss remains in accumulated other comprehensive income or loss and is not reclassified to profit or loss.

Dividends from such investments are recognized in other income in the consolidated statements of loss when the right to receive payments is established.

**Derecognition**

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the Company no longer retains substantially all the risks and rewards of ownership.

**Impairment of financial assets**

The Company's only financial assets subject to impairment are accounts receivable arising from appraisal and credit reporting activity, which are measured at amortized cost. The Company has elected to apply the simplified approach to impairment as permitted by IFRS 9, which requires the expected lifetime loss to be recognized at the time of initial recognition of the receivable. To measure estimated credit losses, accounts receivable have been grouped based on shared credit risk characteristics, including the number of days past due. An impairment loss is reversed in subsequent periods if the amount of the expected loss decreases and the decrease can be objectively related to an event occurring after the initial impairment was recognized.

**Financial liabilities**

**Initial recognition and measurement**

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVPL as is the case for held for trading or derivative instruments, or the Company has opted to measure the financial liability at FVPL. The Company's financial liabilities include accounts payable and note payable, which are each measured at amortized cost. All financial liabilities are recognized initially at fair value and in the case of long-term debt, net of directly attributable transaction costs.

**Subsequent measurement – financial liabilities at amortized cost**

After initial recognition, financial liabilities measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the consolidated statements of loss.

**Derecognition**
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires with any associated gain or loss recognized in other income or expense in the consolidated statements of loss.

## 2. Significant Accounting Policies – Continued

**Compound financial instruments**

The components of compound financial instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. The conversion feature of the convertible debentures issued in 2018 did meet the criteria for equity classification and accordingly, was accounted for as a compound financial instrument. The liability component of a compound financial instrument is recognized initially at fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component.

Subsequent to initial recognition, the liability component is accounted for at amortized cost using the EIR method until the instrument is converted or the instrument matures. The liability component accretes up to the principal balance at maturity. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. The compound financial instruments issued by the Company comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

***Accounting policy under IFRS 9 applicable prior to January 1, 2018***

The accounting policy under IAS 39 for the comparative information presented in respect of financial assets and liabilities, excluding derivative instruments related to hedging activities, was similar to the accounting policy adopted in 2018, with the following exceptions:

**Financial assets**

**Initial recognition and measurement**

Non-derivative financial assets within the scope of IAS 39 were classified as “financial assets at fair value through profit or loss”, “loans and receivables”, or “available-for-sale financial assets”, as appropriate. The Company determines the classification of its financial assets at initial recognition.

**Subsequent measurement – Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss included financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets were classified as held for trading if management intended to sell the financial assets in the short term. This category included any derivative financial instrument that was not designated as a hedging instrument in a hedge relationship under IAS 39.

Derivatives embedded in host contracts were accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks were not closely related to those of the host contracts. Host contracts were not held for trading or designated at fair value through profit or loss. These embedded derivatives were measured at fair value with changes in fair value recognized in the consolidated statements of loss. Reassessment only occurred if there was a change in the terms of the contract that significantly modified the cash flows that would have otherwise been required.

## 2. Significant Accounting Policies – Continued

### Subsequent measurement – Loans and receivables

Interest revenue, impairment gains and losses, and a portion of foreign exchange gains and losses, are recognized in profit and loss on the same basis as for Amortized Cost assets. Changes in fair value are recognized initially in Other Comprehensive Income (OCI). When the asset is derecognized or reclassified, changes in fair value previously recognized in OCI and accumulated in equity are reclassified to profit and loss on a basis that always results in an asset measured at FVOCI having the same effect on profit and loss as if it were measured at Amortized Cost.

### Fair value of financial instruments

The Company's financial instruments consist primarily of cash, accounts receivable, accounts payable, note payable, accrued liabilities and contract liabilities. The following fair value hierarchy prioritizes the input to valuation techniques used to measure fair value as follows:

- Level 1 – Unadjusted quoted prices in active markets of identical assets or liabilities.
- Level 2 – Quoted prices for similar assets or liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.
- Level 3 – Unobservable inputs for the asset or liability.

The following is a summary of the accounting model the Company has elected to apply to each of its significant categories of financial instruments outstanding at December 31, 2018 and 2017:

All of the Company's financial instruments recorded at fair value through profit and loss are Level 2 instruments. The Company's financial instruments are comprised of the following:

| **Financial Assets** | **Classification** |
|---|---|
| Cash and cash equivalents | Loans and receivables |
| Accounts receivable | Loans and receivables |
| Notes receivable | Loans and receivables |

| **Financial Liabilities** | **Classification** |
|---|---|
| Accounts payable and accrued liabilities | Other financial liabilities |
| Notes payable | Other financial liabilities |

### Impairment of financial assets

The Company assessed at each reporting date whether there was any objective evidence that a financial asset or a group of financial assets was impaired. A financial asset or a group of financial assets was deemed to be impaired if there were objective evidence of impairment as a result of one or more events that had occurred after the initial recognition of the asset (an incurred "loss event") and the loss had an impact on the estimated cash flows of the financial asset or group of assets that could be reliably estimated.

For financial assets carried at amortized cost, the Company considered evidence of impairment at both a specific asset and collective level. Objective evidence could include the default or delinquency of a debtor or restructuring of an amount due to the Company on terms that the Company would not consider otherwise.

## 2. Significant Accounting Policies – Continued

All individually significant financial assets were assessed for specific impairment. Financial assets that were not individually significant were collectively assessed for impairment by grouping together financial assets with similar risk characteristics. If there were objective evidence that an impairment had incurred, the amount of the charge was recognized in the consolidated statements of loss and was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that had not yet been incurred. If, in a subsequent period, the estimated impairment charge decreased because of an event, any reversal would have been credited to profit or loss.

**Impairment of non-financial assets**

The non-financial assets of the Company are comprised of property and equipment, intangible assets and goodwill. For non-financial assets excluding goodwill, the Company assesses at each reporting date whether there is an indication that an asset or Cash Generating Unit ("CGU") may be impaired. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. If any indication exists, then the Company estimates the asset's recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

Goodwill is reviewed for impairment annually or more frequently if there are indications that impairment may have occurred. Goodwill impairment is tested at either the individual or group CGU level and is determined based upon the recoverable amount of the individual CGU or group of CGUs compared to the individual CGU or group of CGUs respective carrying amount(s). The recoverable amount is the higher of fair value less costs to sell and the value in use. Value in use is generally determined using the discounted cash flow method. If the impairment loss exceeds the carrying amount of goodwill, the goodwill is written off completely. Any impairment loss left over is allocated to the remaining assets of the individual CGU or group of CGUs.

***Cash and Cash Equivalents***

Cash and cash equivalents include deposits held with banks and other short-term highly liquid investments with original maturities of three months or less. All short-term highly liquid investments can be converted into cash at any time and are not subject to a penalty. As at December 31, 2018 and 2017, the Company did not have any cash equivalents.

***Income Taxes***

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case the income tax is also recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to offset the amounts, and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

## 2. Significant Accounting Policies – Continued

Deferred tax is recognized in respect of all qualifying temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

***Stock-based Compensation***

The Company has in effect a stock option plan (the "Plan") which is described in Note 14. The Plan allows Company employees, directors and officers to acquire shares of the Company for a specified option amount set on the date of grant. Stock options awarded are accounted for using the fair value-based method. Fair value is calculated using the Black-Scholes model and is recorded as stock-based compensation expense over the vesting period of the options. Consideration paid on the exercise of stock options is credited to share capital. The contributed surplus associated with the options is transferred to share capital upon exercise.

***Loss Per Share***

Basic loss per common share is calculated by dividing the loss attributed to shareholders for the year by the weighted average number of common shares outstanding in the year. Diluted loss per common share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares.

***Changes in Accounting Policies***

Effective January 1, 2018, the Company adopted IFRS 9, Financial Instruments, and IFRS 15, Revenue from Contracts with Customers, which resulted in changes in accounting policies as described below. In accordance with the transitional provisions in both standards, the Company adopted these standards retrospectively without restating comparatives, with the cumulative impact adjusted in the opening balances as at January 1, 2018. There were no effects on opening balances at January 1, 2018 with respect to the adoption of these policies.

*IFRS 9, Financial Instruments*

IFRS 9 replaces International Accounting Standard ("IAS") 39, Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for the classification, measurement and impairment of financial assets and hedge accounting. It establishes two primary measurement categories for financial assets: (i) amortized cost and (ii) fair value either through profit or loss ("FVPL") or through other comprehensive income ("FVOCI"); establishes criteria for the classification of financial assets within each measurement category based on business model and cash flow characteristics; and eliminates the existing held for trading, held to maturity, available for sale, loans and receivable and other financial liabilities categories. IFRS 9 also introduces a new expected credit loss model for the purpose of assessing the impairment of financial assets and requires that there be a demonstrated economic relationship between the hedged item and hedging instrument.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

## 2. Significant Accounting Policies – Changes in Accounting Policies - Continued

Upon adoption of IFRS 9, the main change in the Company's accounting policy on financial instruments is related to accounts receivable. Accounts receivable previously classified as loans and receivables are now classified as amortized cost. The assets are measured at the amount recognized at initial recognition minus the cumulative amortization of any difference between that initial amount and the maturity amount, and any loss allowance.

The following table shows the previous classification under IAS 39 and the new classification under IFRS 9 for the Company's financial instruments:

| | **Financial instrument classification** | |
|---|---|---|
| | **Under IAS 39** | **Under IFRS 9** |
| **Financial assets** | | |
| Cash | Loans and receivables | Amortized cost |
| Accounts receivable | Loans and receivables | Amortized cost |
| Note receivable | Loans and receivables | Amortized cost |
| | | |
| **Financial liabilities** | | |
| Accounts payable and accrued liabilities | Other financial liabilities | Amortized cost |
| Note payable | Other financial liabilities | Amortized cost |

The Company adopted IFRS 9 retrospectively without restating comparatives and therefore the comparative information in respect of financial instruments for the year ended December 31, 2017 was accounted for in accordance with the Company's previous accounting policy under IAS 39.

The adoption of IFRS 9 did not have a material impact on the Company's financial statements.

*IFRS 15, Revenue from Contracts with Customers*

IFRS 15 establishes the principles that an entity shall apply to report the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. IFRS 15 replaces IAS 11, Construction contracts and IAS 18, Revenue.

Under IFRS 15, revenue is recognized when control of a good or service transfers to a customer and is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Under IAS 18, revenue was recognized when the significant risks and rewards of ownership had been transferred to the customer and was measured at the fair value of the consideration received or receivable.

The adoption of IFRS 15 did not have a material impact on the Company's financial statements.

The Company adopted IFRS 15 retrospectively without restating comparatives and therefore the comparative information in respect of revenue for the year ended December 31, 2017 was accounted for in accordance with the Company's previous accounting policy under IAS 18. There are no differences in the current and previous accounting policies pertaining to revenue recognition.

## 2. Significant Accounting Policies – Continued

### *Standards Issued or Amended Which Will be Adopted in Future Periods*

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after January 1, 2019 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IAS 1 – Presentation of Financial Statements ("IAS 1") and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8") were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted.

IFRS 3 – Business Combinations ("IFRS 3") was amended in October 2018 to clarify the definition of a business. This amended definition states that a business must include inputs and a process and clarified that the process must be substantive, and the inputs and process must together significantly contribute to operating outputs. In addition, it narrows the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs, and added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted.

IFRS 16 – Leases ("IFRS 16") was issued in January 2016 and replaces IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated depreciation and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company will adopt IFRS 16 effective January 1, 2019.

## 3. Business Combinations

### Acquisition of MFI Credit Solutions, LLC

On February 9, 2018, the Company completed the acquisition of MFI Credit Solutions, LLC, a Wyoming limited liability company. The Company acquired all of the assets of MFI Credit Solutions, LLC in exchange for $1,500,000. The acquisition was accounted for using the acquisition method of accounting under IFRS 3, Business Combinations, which requires the Company to recognize the identifiable assets acquired and liabilities assumed at their fair value on the date of acquisition.

The following sets forth the final allocation of the purchase price to assets acquired and liabilities assumed, based on estimated of fair value, including a summary of major classes of consideration transferred, and the recognized amounts of assets acquired at the acquisition date:

| | |
|---|---|
| **Consideration Paid:** | |
| Cash | $1,500,000 |
| **Fair value of identifiable assets acquired:** | |
| Property, plant and equipment (Note 4) | 47,845 |
| Credit bureau repository codes (Note 5) | 647,269 |
| Customer relationship (Note 5) | 342,827 |
| Non-compete agreements (Note 5) | 167,903 |
| Goodwill (Note 8) | 294,156 |
| | **$1,500,000** |

The value allocated to the credit bureau repository codes has an indefinite useful life and is tested annually for impairment, along with goodwill (see Note 8).

Revenue generated by MFI Credit Solutions, LLC for the period from acquisition date of February 9, 2018 to December 31, 2018 was $2,328,280. Net loss for the same period was $161,800.

The following unaudited pro forma financial information presents information as if the acquisition had been completed on January 1, 2018. The unaudited pro forma financial information presented below is for information purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of the 2018 fiscal year. The unaudited pro forma financial information presented includes amortization charges for acquired intangible assets based on the values assigned in the purchase price allocation. If the acquisition was completed on January 1, 2018, revenue for the Company would have been approximately $2,614,950 and net loss would have been approximately $181,714.

| | | Year ended December 31, 2018 |
|---|---|---|
| Revenue | $ | 2,614,950 |
| Net loss | | (181,714) |
| Depreciation and amortization | | 108,205 |

## 4. Property and Equipment

| | Furniture & Equipment | Leasehold Improvements | Total |
|---|---|---|---|
| **Cost** | | | |
| As at December 31, 2016 | $ 406,503 | $ 72,201 | $ 478,704 |
| Additions | 9,390 | - | 9,390 |
| As at December 31, 2017 | $ 415,893 | $ 72,201 | $ 488,094 |
| Additions (Note 3) | 47,845 | - | 47,845 |
| **As at December 31, 2018** | **$ 463,738** | **$ 72,201** | **$ 535,939** |
| | | | |
| **Accumulated depreciation** | | | |
| As at December 31, 2016 | $ 178,794 | $ 28,062 | $ 206,856 |
| Expense | 78,325 | 10,314 | 88,639 |
| As at December 31, 2017 | $ 257,119 | $ 38,376 | $ 295,495 |
| Expense | 85,549 | 10,173 | 95,722 |
| **As at December 31, 2018** | **$ 342,668** | **$ 48,549** | **$ 391,217** |
| | | | |
| **Net book value** | | | |
| As at December 31, 2017 | $ 158,774 | $ 33,825 | $ 192,599 |
| **As at December 31, 2018** | **$ 121,070** | **$ 23,652** | **$ 144,722** |

## 5. Intangible Assets

| | Business Software & Website | Proprietary Software | Non-Compete Agreements | Customer Relationships | Credit Bureau Repository Codes | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| As at December 31, 2016 | $ 67,113 | $ 200,377 | $ 142,843 | $ 492,135 | $ - | $ 902,468 |
| Additions | - | - | - | - | - | - |
| As at December 31, 2017 | $ 67,113 | $ 200,377 | $ 142,843 | $ 492,135 | $ - | $ 902,468 |
| Additions (Note 3) | - | - | 167,903 | 342,827 | 647,269 | 1,157,999 |
| **As at December 31, 2018** | **$ 67,113** | **$ 200,377** | **$ 310,746** | **$ 834,962** | **$ 647,269** | **$ 2,060,467** |
| **Accumulated depreciation** | | | | | | |
| As at December 31, 2016 | $ 34,490 | $ 68,281 | $ 67,912 | $ 114,460 | $ - | $ 285,143 |
| Expense | 13,428 | 40,071 | 28,497 | 49,214 | - | 131,210 |
| As at December 31, 2017 | $ 47,918 | $ 108,352 | $ 96,409 | $ 163,674 | $ - | $ 416,353 |
| Expense | 13,427 | 38,067 | 58,397 | 110,265 | - | 220,156 |
| **As at December 31, 2018** | **$ 61,345** | **$ 146,419** | **$ 154,806** | **$ 273,939** | **$ -** | **$ 636,509** |
| **Net Book Value** | | | | | | |
| As at December 31, 2017 | $ 19,195 | $ 92,025 | $ 46,434 | $ 328,461 | $ - | $ 486,115 |
| **As at December 31, 2018** | **$ 5,768** | **$ 53,958** | **$ 155,940** | **$ 561,023** | **$ 647,269** | **$ 1,423,958** |

The purchase price allocation of MFI Credit Solutions, LLC effective February 9, 2018, included values for non-compete agreements for key employees as well as values for the existing customer relationships (Note 3). Additionally, values for credit bureau repository codes were also allocated from the acquisition and included in the intangible assets listed above. Repository codes are unique codes issued by the three major credit reporting agencies in the United States – Equifax, Experian and TransUnion – through which credit reports may be accessed. The useful life of the repository codes is indefinite and is not depreciated. The repository codes are tested annually for impairment.

## 6. Operating Leases

The Company conducts operations from leased facilities in Texas, California and Colorado, all of which are classified as operating leases. The following is a schedule by years of approximate future minimum lease payments required under operating leases that have initial or remaining noncancelable terms in excess of one year as of December 31, 2018.

Year ending December 31:

| | |
|---|---|
| 2019 | $ 217,693 |
| 2020 | $ 162,328 |
| 2021 | $ 92,630 |
| Total | $ 472,651 |

## 7. Related Party Transactions

### AmCap Mortgage Ltd.

AmCap Mortgage Ltd., a related customer (by common Director) accounted for $4,324,600 (2017 - $4,877,625) of revenue to the Company. As at December 31, 2018, $36,734 (2017 – $35,557) is included in accounts receivable on the consolidated statements of financial position. Additionally, $132,566 (2017 - $26,345) is included in accounts payable as at December 31, 2018, on the consolidated statements of financial position.

### Hilltop Financial, LLC

On November 16, 2018, the Company entered into a Promissory Note with Hilltop Financial, LLC, a related party (by common Director) to be utilized as a revolving line of credit. The Company recorded $Nil in accrued interest for the year ended December 31, 2018 (2017 – $Nil). As at December 31, 2018, the Company utilized $80,000 of the revolving line of credit, which is reported as a short-term liability (see Note 17).

### Key Management Compensation

The Company had the following transactions with officers and directors of the Company and private companies controlled by officers and directors of the Company for management consulting and other services required:

i) The Company incurred $330,560 in management fees in 2018 (2017 - $333,560) to the Chief Operating Officer, Chief Executive Officer and Chief Financial Officer for services provided. These fees are included in management and corporate services. At December 31, 2018 and 2017, all amounts had been paid.

## 8. Goodwill

Goodwill is not amortized but is evaluated for impairment annually or when indicators of a potential impairment are present. The Company's impairment testing is based on valuation models that incorporate assumptions and internal projections of expected future cash flows and operating plans. The Company's annual goodwill impairment testing determined that the carrying value of the goodwill included in each of the Company's reportable segments (Note 21) did not exceed their value in use and, as a result, the Company did not report an impairment charge. The change in net carrying amount of goodwill for the years ended December 31, 2018 and 2017 is as follows:

| | | Property Interlink, LLC | | MFI Credit Solutions, LLC | | Total |
|---|---|---|---|---|---|---|
| **Balance, December 31, 2016 and 2017** | $ | 621,132 | $ | - | $ | 621,132 |
| Acquisition February 9, 2018 (Note 3) | | - | | 294,156 | | 294,156 |
| **Balance, December 31, 2018** | **$** | **621,132** | **$** | **294,156** | **$** | **915,288** |

## 8. Goodwill - continued

The recoverable amount was determined based on a value in use calculation which uses cash flow projections covering a period of 5 years and Weighted Average Cost of Capital ("WACC") rates as follows:

| Reportable Segment: | 2018 WACC | 2017 WACC |
|---|---|---|
| Property Interlink, LLC. | 18.98% | 20.0% |
| MFI Credit Solutions, LLC | 38.41% | N/A |

## 9. Accounts Receivable

Accounts receivable primarily consists of outstanding balances in Property Interlink, LLC and MFI Credit Solutions, LLC associated with the completion of appraisals and delivery of credit reports. Management has not established an allowance for doubtful accounts because historically accounts receivable have been collectible.

Accounts receivable balances as at December 31, 2018 and 2017 are as follows:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Appraisal receivables | $ | 302,370 | $ | 220,359 |
| Credit reporting receivables | | 159,451 | | - |
| Other receivables | | 495 | | 58,826 |
| Total | $ | 462,316 | | 279,185 |

Aging of accounts receivable as at December 31, 2018 and 2017 are as follows:

| | Appraisal Receivables | | | | Credit Reporting Receivables | | | |
|---|---|---|---|---|---|---|---|---|
| Aging | | 2018 | | 2017 | | 2018 | | 2017 |
| Current | $ | 166,568 | $ | 103,430 | $ | 103,652 | $ | - |
| < 30 days | | 97,320 | | 42,688 | | 35,021 | | - |
| 31-60 days | | 22,380 | | 27,551 | | 12,056 | | - |
| 61-90 days | | 16,102 | | 46,687 | | 8,722 | | - |
| Total | $ | 302,370 | $ | 220,356 | $ | 159,451 | $ | - |

## 10. Notes Receivable

The Company entered into agreements effective May 1, 2015, to divest Olympia Capital Management, Inc. and One Force Staffing, Inc. through an asset sale. Promissory notes for $1,100,000 and $830,000 were received for the assets of Olympia Capital Management, Inc. and One Force Staffing, Inc., respectively. The promissory notes carried a 5% interest rate. The promissory notes were originally payable in two equal installments of $965,000 commencing November 30, 2015, the full balance due May 31, 2016.

Effective April 15, 2016, the Company amended the terms of the notes receivable. The amended terms are as follows: interest only payments became due and payable quarterly commencing July 14, 2016, with principal and any outstanding interest due April 14, 2017. Upon the occurrence and during the continuance of any event of default the note receivable would bear interest at a rate of 8%.

During the year ended December 31, 2018, the Company recorded interest income of $9,644 (December 31, 2017 - $91,746) of which $Nil (December 31, 2017 - $58,332) is outstanding and included in accounts receivable on the consolidated statements of financial position. As at December 31, 2017, the note receivable was classified in current assets.

## 10. Notes Receivable - continued

On April 14, 2017, the promissory note for $1,100,000 received for the assets of Olympia Capital Management, Inc., matured and became due and payable following a ten-day grace period, the note was in default. An impairment expense of $Nil (December 31, 2017 - $516,383) was recognized on the promissory note received for the assets of Olympia Capital Management, Inc. during the year ended December 31, 2018, in the consolidated statements of loss. Effective February 6, 2018, the promissory note for the assets of Olympia Capital Management, Inc. was settled for $650,000, inclusive of interest and principal.

## 11. Contract Liabilities

The Company recognized the following liabilities in Property Interlink, LLC related to contracts with customers as of December 31, 2018 and 2017:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Contract liabilities | $ | 325,772 | $ | - |
| Deferred revenue | | 49,955 | | 77,714 |
| Total | $ | 375,727 | | 77,714 |

## 12. Revenue from Contracts with Customers

The Company derives revenue from the completion of real estate appraisals and from the delivery of consumer credit reports and ancillary credit reporting activity. The following revenues were recognized by Property Interlink, LLC and MFI Credit Solutions, LLC for the period ended December 31, 2018 and 2017:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Appraisal revenue | $ | 7,251,073 | $ | 7,560,613 |
| Management fee revenue | | 75,750 | | 14,180 |
| Credit reporting revenue | | 2,328,380 | | - |
| Total | $ | 9,655,203 | $ | 7,574,793 |

## 13. Share Capital

**Authorized**

The Company is authorized to issue an unlimited number of common shares.

| Issued | Number of Common Shares | Amount $ |
|---|---|---|
| **Balance, December 31, 2016** | **14,480,827** | 6,745,651 |
| Shares Issued - exercise of options | 100,000 | 34,060 |
| **Balance, December 31, 2017 and 2018** | **14,580,827** | 6,779,711 |

## 14. Share-Based Payments

The Company has a stock option plan (the "Plan") that enables its directors, officers, employees, consultants and advisors to acquire common shares of the Company. Options are granted at the discretion of the Board of Directors. Under the terms of the Plan, options totaling up to 10% of the common shares outstanding from time to time are issuable. The exercise price, vesting period and expiration period are fixed at the time of grant at the discretion of the Board of Directors.

| | Number of options | Weighted average exercise price $ | Grant Date Fair Value $ |
|---|---|---|---|
| Outstanding, December 31, 2016 | 750,000 | 0.33 | 1.33 |
| Exercise of options | (100,000) | 0.23 | 0.17 |
| Outstanding, December 31, 2017 | 650,000 | 0.47 | 0.35 |
| Granted | 175,000 | 1.03 | 0.73 |
| Outstanding, December 31, 2018 | 825,000 | 0.49 | 1.08 |
| Exercisable, December 31, 2018 | 775,000 | 0.44 | 1.08 |

| | Number of Options Outstanding | Number of Options Exercisable | | Exercise Price | Expiry Date | Weighted Average Remaining Life |
|---|---|---|---|---|---|---|
| Granted April 17, 2014 | 550,000[1] | 550,000 | $ | 0.18[4] | April 17, 2019[8] | 0.29 |
| Granted August 25, 2015 | 100,000[2] | 100,000 | $ | 1.25[5] | September 1, 2020 | 1.67 |
| Granted February 9, 2018 | 50,000[3] | 50,000 | $ | 0.38[6] | February 9, 2023 | 4.11 |
| Granted October 5, 2018 | 125,000[3] | 75,000 | $ | 1.29[7] | October 5, 2023 | 4.76 |
| Total | 825,000 | 775,000 | | | | 1.37 |

(1) Directors of the Company hold these options. They are fully vested.
(2) An Executive Officer of the Company holds these options. They are fully vested.
(3) 50,000 options granted in February 2018 vest immediately; of the 125,000 options granted in October 2018, 75,000 options vest immediately; 25,000 fully vest on April 3, 2019, with the remaining vesting on October 5, 2019.
(4) The exercise price is CAD $0.25.
(5) The exercise price is CAD $1.70.
(6) The exercise price is CAD $0.51.
(7) The exercise price is CAD $1.75.
(8) 500,000 were exercised on April 16, 2019 (Note 22); 50,000 options expired unexercised, (Note 22).

The Company incurred $138,345 in share-based payment expense for options in 2018 (2017 - $Nil).

## 15. Income Taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2017 – 26.5%) to the effective tax rate is as follows:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Loss before recovery of income taxes | **$** | **(357,579)** | $ | (951,145) |
| | | | | |
| Expected income tax recovery | **$** | **(95,000)** | $ | (252,000) |
| Share-based payments | | **37,000** | | - |
| Change in tax benefits not recognized | | **58,000** | | 252,000 |
| Income tax recovery | **$** | **-** | $ | - |

### Deferred Tax

The following table summarizes the components of deferred tax:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Non-capital loss – United States | **$** | **4.477** | $ | 8,861 |
| Property and equipment | | **(4,477)** | | (35,043) |
| Intangible assets | | **-** | | (74,920) |
| Net deferred tax asset (liability) | **$** | **-** | $ | (101,102) |

Recognized deferred tax assets (liabilities) in Canada were as follows:

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Convertible note payable | (17,000) | - |
| Non-capital loss carry-forwards | 17,000 | - |
| Total | - | - |

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Movement in net deferred tax asset (liability):

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Balance, beginning of year | **$** | **(101,102)** | $ | (168,974) |
| Recognized in net comprehensive loss | | **101,102** | | 67,872 |
| | | | | |
| Balance, end of year | **$** | - | $ | (101,102) |

## 15. Income Taxes - continued

### Unrecognized Deferred Tax

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Deferred income tax | | | | |
| Canadian net capital loss carried forward | **$** | **2,542,000** | $ | 2,211,000 |
| Canadian non-capital losses carried forward | **$** | **3,744,000** | $ | 4,096,000 |
| United States intangible assets | **$** | **76,159** | $ | - |
| Share issuance costs | **$** | **-** | $ | 4,000 |
| United States non-capital losses carried forward | **$** | **365,631** | $ | 33,294 |

The Canadian non-capital loss carry forwards expire as noted in the table below. The net capital loss carry forward may be carried forward indefinitely, but can only be used to reduce capital gains. Share issue and financing costs are fully amortized in 2018. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

The Company's Canadian non-capital income tax losses expire as follows:

| | | |
|---|---|---|
| 2026 | $ | 30,000 |
| 2027 | | 48,000 |
| 2029 | | 80,000 |
| 2030 | | 70,000 |
| 2031 | | 71,000 |
| 2032 | | 105,000 |
| 2033 | | 149,000 |
| 2034 | | 553,000 |
| 2035 | | 849,000 |
| 2036 | | 1,174,000 |
| 2037 | | 419,000 |
| 2038 | | 196,000 |
| | $ | 3,744,000 |

The Company's United States non-capital income tax losses carried forward are $365,631 and may be carried forward indefinitely subject to an 80% limitation of taxable income.

## 16. Net Loss per Share

Basic and diluted loss per share has been calculated based on the weighted average number of common shares outstanding in 2018 of 14,580,827 (2017 – 14,485,211). All stock options and convertible notes were excluded from the calculation of the weighted average number of diluted common shares outstanding because their effect would have been anti-dilutive.

## 17. Notes Payable

On January 23, 2018, the Company entered into a note purchase agreement. In return for an aggregate sum of $500,000, the Company issued to the lender a note convertible at the option of the holder into common shares with a conversion price of $0.73 per share, and with a maturity date of January 22, 2019. Interest accrues at 6% per annum. The Company recorded $28,138 in accrued interest for the year ended December 31, 2018 (2017 - $Nil). As at December 31, 2018, $63,000 was recorded in contributed surplus related to the value of the conversion option at the time of issue with the remaining principal balance included in note payable. An accretion expense of $57,260 (2017 - $Nil) was recorded based on an effective discount rate of 20% (see Note 22).

On November 16, 2018, the Company entered into a Promissory Note with a principal amount of $250,000 utilized as a revolving operating line of credit with a maturity date of December 1, 2019. Interest accrues at 6% per annum. The Company recorded $Nil in accrued interest for the year ended December 31, 2018 (2017 – $Nil). As at December 31, 2018, the Company withdrew $80,000 of the revolving line of credit, which is reported as a short-term liability under Notes Payable (see Note 7).

## 18. Capital Disclosures

The Company's objectives when managing capital are to maintain its ability to continue as a going concern in order to provide return for shareholders and to ensure sufficient resources are available to meet day to day operating requirements.

The Company considers the items included in equity as capital, which totals $1,216,623 as at December 31, 2018 (2017 - $1,826,868).

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company does not have externally imposed capital requirements.

The Company's capital management objectives, policies and processes have remained unchanged during the years ended December 31, 2018 and 2017.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the Canadian Securities Exchange (“CSE”). The impact of any violation of CSE requirements is not known and is ultimately dependent on the discretion of the CSE.

## 19. Supplemental Cash Flow Information

| | | **2018** | | 2017 |
|---|---|---|---|---|
| Operating cash flows include: | | | | |
| Interest received | **$** | **66,903** | $ | 37,710 |
| Equity component of note payable | **$** | **63,000** | | - |

## 20. Financial Risk Factors

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, notes receivable, accounts payable and accrued liabilities and note payable. As at December 31, 2018, the carrying values and fair values of the Company’s financial instruments are approximately the same.

## 20. Financial Risk Factors - continued

The Company is exposed, in varying degrees, to the following financial instrument related risks:

### Credit Risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. For financial assets, this is typically the gross carrying amount, net of any amounts offset and any impairment losses. In the normal course of business, the Company is exposed to credit risk from its customers and the related accounts receivable are subject to normal industry credit risk.

The Company applies the IFRS 9 simplified approach to measuring expected losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. The expected loss rates are based on the payment profiles of sales over a period of 36 months before the year end. The historical loss rates, if any, are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. All trade receivables are less than sixty days past due. On that basis, no allowance for doubtful accounts was recorded nor were expected losses determined on adoption of IFRS 9.

### Liquidity Risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available working capital to meet its liquidity requirements. At December 31, 2018, the Company had cash and cash equivalents of $160,345 (2017 - $572,548) available to settle current liabilities of $1,940,731 (2017 - $828,397).

### Interest Rate Risk

The Company is exposed to interest rate risk to the extent that the cash maintained at financial institutions is subject to a floating rate of interest. The interest rate risks on cash and on the Company's, obligations are not considered significant.

### Foreign Currency Risk

The Company is exposed to foreign currency risk on fluctuations related to cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities that are denominated in a foreign currency. As at December 31, 2018, the Company held immaterial amounts of cash and cash equivalents and accounts receivable in CDN currency and considers foreign currency risk to be low.

| | | **December 31, 2018** | | December 31, 2017 |
|---|---|---|---|---|
| Cash and cash equivalents | **$ CDN** | **-** | $ CDN | 772 |
| Accounts receivable | | **495** | | 394 |
| Accounts payable and accrued liabilities | | **(291,040)** | | (289,675) |
| **Total** | **$ CDN** | **(290,545)** | $ CDN | (288,509) |

## 20. Financial Risk Factors - continued

### Concentration Risk

The Company has certain customers whose revenue individually represented 10% or more of the Company's total revenue. Concentration risk for Amcap Mortgage, Ltd. by segment is as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| **Segment** | **Revenue ($)** | **Revenue (%)** | **Revenue ($)** | **Revenue (%)** |
| Property Interlink-Appraisal revenue | 4,122,180 | 43 | $ 4,877,625 | 64 |
| MFI Credit Solutions Credit reporting revenue | 202,480 | 2 | - | - |
| Total | $ 4,324,600 | 45 | $ 4,877,625 | 64 |

All of the Company's revenue for the year ended December 31, 2018 and 2017, was in the United States.

As at December 31, 2018, one customer accounted for 25% ($115,835) of the Company's accounts receivable balances, related to the Property Interlink – Appraisal segment. As at December 31, 2017, two customers accounted for 33% ($93,515) of accounts receivable, related to the Property Interlink – Appraisal segment.

There can be no assurance that all or any of the Company's customers will continue to be customers of the Company. The loss of any such customers may have a materially negative impact on the company's business conditions and financial results.

## 21. Segmented Disclosures

The Company organizes its reporting structure into four reportable segments. For management purposes, the Company is organized into segments based on their products and services provided. Management monitors the operating results of each segment separately for the purpose of making decisions about resource allocation and performance assessment.

The four reportable operating segments are as follows:

ii) Property Interlink, LLC manages residential appraisals and maintains all of the ordering, tracking, administrative duties and details and ensures the timeliness of appraisals that are handled during a real estate mortgage transaction.

iii) Starrex International Ltd., or Corporate, manages the wholly-owned subsidiaries, as well as shareholder services and corporate governance.

iv) MFI Credit Solutions, LLC manages consumer credit reporting and maintains all of the ordering, tracking, administrative duties and details required to support consumer credit reporting activities.

v) Reliable Valuation Service, LLC provides residential evaluations of residential real estate to third parties.

## 21. Segmented Disclosures - continued

Select financial information as at December 31, 2018 is presented as follows:

| | Property Interlink, LLC | MFI Credit Solutions, LLC | Reliable Vauation Service, LLC | Corporate | Total |
|---|---|---|---|---|---|
| Current assets | $ 407,417 | $ 249,119 | $ 620 | $ 16,230 | $ 673,386 |
| Note receivable | - | - | - | - | $ - |
| Property and equipment | 104,800 | 39,922 | - | - | $ 144,722 |
| Intangible assets | 173,567 | 1,067,047 | - | 183,344 | $ 1,423,958 |
| Goodwill | 621,132 | 294,156 | - | - | $ 915,288 |
| Total Assets | $ 1,306,916 | $ 1,650,244 | $ 620 | $ 199,574 | $ 3,157,354 |
| | | | | | |
| Current liabilities | $ 606,213 | $ 489,301 | $ - | $ 845,216 | $ 1,940,731 |
| Long-term liabilities | - | - | - | - | - |
| Total liabilities | $ 606,213 | $ 489,301 | $ - | $ 845,216 | $ 1,940,731 |
| | | | | | |
| Revenues | $ 7,326,823 | $ 2,328,380 | $ - | $ 9,644 | $ 9,664,847 |
| | | | | | |
| Expenses | $ 7,729,400 | $ 2,490,180 | $ 380 | $ 357,579 | $ 10,577,539 |
| | | | | | |
| (Loss) before provision for income tax | $ (402,577) | $ (161,800) | $ (380) | $ (347,935) | $ (912,691) |
| | | | | | |
| Recovery of income taxes | $ 101,102 | $ - | $ - | $ - | $ 101,102 |
| | | | | | |
| Net loss and comprehensive loss for the year | $ (301,475) | $ (161,800) | $ (380) | $ (347,935) | $ (811,590) |

## 21. Segmented Disclosures – continued

Select financial information as at December 31, 2017 is presented as follows:

| | Property Interlink, LLC | Corporate | Total |
|---|---|---|---|
| Current assets | $ 235,941 | $ 636,964 | $ 872,905 |
| Note receivable | - | 583,617 | 583,617 |
| Property and equipment | 192,598 | - | 192,598 |
| Intangible assets | 486,115 | | 486,115 |
| Goodwill | 621,132 | - | 621,132 |
| Total Assets | $ 1,535,786 | $ 1,220,581 | $ 2,756,367 |
| | | | |
| Current liabilities | $ 464,986 | $ 363,411 | $ 828,397 |
| Long-term liabilities | 101,102 | - | 101,102 |
| Total liabilities | $ 566,087 | $ 363,411 | $ 929,499 |
| | | | |
| Revenues | $ 7,574,793 | $ 91,746 | $ 7,666,539 |
| | | | |
| Expenses | $ 7,450,782 | $ 1,042,891 | $ 8,493,673 |
| | | | |
| Income / (loss) before provision for income tax | $ 124,010 | $ (951,144) | $ (827,136) |

## 22. Subsequent Events

i) Effective January 23, 2019, the Company entered into an Amending Note Purchase Agreement. Under the Amending Note Purchase Agreement, the conversion price was amended to $1.06 from $0.73 per share with a maturity date of April 22, 2019. Accrued interest through January 23, 2019 of $30,000 was paid in full on February 14, 2019. Management is currently negotiating with the holder of the Amending Note Purchase Agreement to convert the outstanding principal balance of $500,000 along with $7,315 in accrued interest.

ii) Subsequent to December 31, 2018, Directors exercised 500,000 options expiring April 17, 2019, at an exercise price of $0.25 CAD. Additionally, 50,000 options expired unexercised (see Note 14).