

Blacklist Holdings Inc.
Financial Statements
Years Ended December 31, 2017 and 2016

Expressed in United States Dollars



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Directors and Shareholders of Blacklist Holdings Inc.

We have audited the accompanying financial statements of Blacklist Holdings Inc., which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Blacklist Holdings Inc. as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 to the financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Blacklist Holdings Inc.'s ability to continue as a going concern.

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada,
December 21, 2018

An independent firm associated with
Moore Stephens International Limited
MOORE STEPHENS

Blacklist Holdings Inc.
 Statements of Financial Position
 Expressed in US dollars

	Notes	December 31, 2017	December 31, 2016
ASSETS			
Current assets			
Cash		\$ 13,618	\$ 26,542
Receivables	7	600,810	388,792
Inventory	3	-	4,645
		614,428	419,979
Non-current assets			
Property and equipment	4	404,004	401,546
TOTAL ASSETS		\$ 1,018,432	\$ 821,525
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	5	\$ 561,122	\$ 213,684
Loans payable	6	776,258	637,474
Current portion of vehicle loans	8	27,030	15,500
		1,364,410	866,658
Non-current liabilities			
Vehicle loans	8	63,223	41,810
TOTAL LIABILITIES		1,427,633	908,468
SHAREHOLDERS' EQUITY			
Share capital	9	130,976	124,920
Deficit		(540,177)	(211,863)
TOTAL SHAREHOLDERS' EQUITY		(409,201)	(86,943)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 1,018,432	\$ 821,525

Nature and Continuance of Operations (Note 1)
 Commitments (Note 8)
 Subsequent events (Notes 1 and 13)

Approved and authorized for issue by the Board of Directors on December 20, 2018.

 "John Gorst"
 Director

 "Austin Gorst"
 Director

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

Blacklist Holdings Inc.
Statements of Loss and Comprehensive loss
Expressed in US dollars

	Notes	Years ended	
		December 31, 2017	December 31, 2016
Revenue			
Product sales	7	\$ 1,413,930	\$ 717,556
Equipment rental income	7	345,413	232,385
Royalty income	8	476,485	116,281
		2,235,828	1,066,222
Cost of goods sold	3	918,361	484,517
		1,317,467	581,705
Operating expenses			
Business development		\$ 288,838	\$ 259,661
Depreciation	4	109,815	46,638
Interest and finance charges	6, 7	102,593	65,251
Office and administration		192,402	180,404
Professional fees		37,061	35,478
Rent expense	7	92,797	42,903
Research and development		3,864	3,205
Salaries and wages		482,107	38,817
Share based payments	7, 9	6,056	6,056
Travel		71,439	60,245
Utilities		34,466	22,894
		1,421,438	761,552
Other items:			
Impairment of related party receivables	7	191,120	30,437
Write-off of accounts payable		(27,777)	-
Write-off of non-refundable deposit		61,000	-
Loss and Comprehensive loss		\$ (328,314)	\$ (212,284)
Loss per share – basic and diluted		\$ (0.04)	\$ (0.03)
Weighted average number of shares outstanding – basic and diluted		7,507,068	7,362,485

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

Blacklist Holdings Inc.
Statement of Changes in Shareholders' Equity
Expressed in US dollars

	Share capital				
	Notes	Number of shares	Amount	Deficit	Total
Balance at December 31, 2015		7,350,000	\$ 118,864	\$ 421	\$ 119,285
Shares issued for services rendered	9	147,000	6,056	-	6,056
Net loss for the year		-	-	(212,284)	(212,284)
Balance at December 31, 2016		7,497,000	124,920	(211,863)	(86,943)
Shares issued for services rendered	7, 9	147,000	6,056	-	6,056
Net loss for the year		-	-	(328,314)	(321,314)
Balance at December 31, 2017		7,644,000	\$ 130,976	\$ (540,177)	\$ (402,201)

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

Blacklist Holdings Inc.
Statements of Cash Flows
Expressed in US dollars
For the years ended December 31, 2017 and 2016

	Year ended	
	December 31, 2017	December 31, 2016
Operating activities		
Loss for the year	\$ (328,314)	\$ (212,284)
Adjustments for:		
Depreciation	109,815	48,639
Interest expense	102,593	65,251
Impairment of related party receivable	191,120	30,437
Share based payments	6,056	6,056
Write-off of accounts payable	(27,777)	-
Write-off of non-refundable deposit	61,000	-
Changes in non-cash working capital items:		
Receivables	(403,138)	(359,847)
Accounts payables and accrued liabilities	517,100	472,316
Inventory	4,645	(3,595)
Net cash flows from operating activities	233,100	46,973
Investing activities		
Purchase of property, plant and equipment	(115,532)	(236,376)
Net cash flows used in investing activities	(115,532)	(236,376)
Financing activities		
Proceeds from loans payable	38,991	331,500
Repayment of loans payable	(153,853)	(90,563)
Repayment of vehicle loans	(15,630)	(25,643)
Net cash flows from (used in) financing activities	(130,492)	215,294
Increase (decrease) in cash	(12,924)	25,891
Cash, beginning of the year	26,542	651
Cash, end of the year	\$ 13,618	\$ 26,542
Supplemental cash flow information:		
Interest paid in cash during the period	\$ 40,830	\$ -
Reclassification of accounts payable to loans payable	164,343	279,787
Acquisition of motor vehicles through vehicle loans	48,444	78,537
Proceeds for loans payable through property, plant and equipment	9,297	41,415

1. NATURE AND CONTINUANCE OF OPERATIONS

Blacklist Holdings Inc. (the “Company”) was incorporated on February 26, 2014, under the General Corporation Law of the State of Washington. The Company’s core business activities are specializing in sale of cannabis related hard goods (such as cartridges, applicators, pens, jars, etc.), licensing its intellectual property (“Licensed IP”) and leasing its equipment to processors.

The Company’s head office is located at 2915 S. M St., Tacoma, Washington, USA.

The Company executed a letter of intent with Skanderbeg Capital Advisors Inc. (“Skanderbeg”), whereby it would acquire 100% of the issued and outstanding securities of the Company, in exchange for cash and securities of Skanderbeg. In consideration of the transaction, Skanderbeg shall or will cause a Canadian listed reporting issuer (“Pubco”) to issue 51,000,000 common shares of the Pubco to shareholders of the Company. Subject to the closing, the Company will issue financings in the amount no less than \$3,250,000 as convertible debentures. On June 18, 2018, Skanderbeg executed an assignment and novation agreement with Zara Resource Inc. (“Zara”), a public company listed on the Canadian Stock Exchange (“CSE”), pursuant to which Skanderbeg assigned to Zara the rights and obligations of the letter of intent between Skanderbeg and the Company.

On June 18, 2018, the Company and Zara have entered into a Letter of Intent (“LOI”), pursuant to which Zara will acquire all of the issued and outstanding common shares of Blacklist in consideration for Zara common shares on a one-for-one basis (the “Transaction”). As a result of the acquisition of Blacklist, Zara will become the sole registered owner of all the outstanding Blacklist shares.

These financial statements have been prepared with the going concern assumption, which assumes that the Company will continue in operation for the foreseeable future and, accordingly, will be able to realize its assets and discharge its liabilities in the normal course of operations. To date, the Company has incurred losses and it will require further financing to operate and further develop its business. The Company’s ability to realize its assets and discharge its liabilities is dependent upon the Company obtaining the necessary financing and ultimately upon its ability to achieve profitable operations. These material uncertainties may cast significant doubt on the Company’s ability to continue as a going concern. Failure to arrange adequate financing on acceptable terms and/or achieve profitability may have an adverse effect on the financial position, results of operations, cash flows and prospects of the Company. These financial statements do not give effect to adjustments to assets or liabilities that would be necessary should the Company be unable to continue as a going-concern. These adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

Statement of compliance

These financial statements have been prepared in accordance with accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”) for all periods presented. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

These financial statements were authorized for issue by the Board of Directors on December 21, 2018.

Basis of preparation

These financial statements have been prepared on a historical cost basis, modified where applicable. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

These financial statements are presented in US dollars, except when otherwise indicated. The functional currency of the Company is determined based on the currency of the primary economic environment in which the entity operates. The functional currency of the Company is the US dollar.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Significant estimates and assumptions

The preparation of a Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

The Company bases its estimates and assumptions on current and various other factors that it believes to be reasonable under the circumstances. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

The areas which require management to make significant estimates and assumptions in determining carrying values include, but are not limited to:

Estimated useful lives and depreciation of property, plant and equipment

Significant judgment is involved in the determination of useful life and residual values for the computation of depreciation and no assurance can be given that actual useful lives and residual values will not differ significantly from current assumptions.

Impairment

The carrying value of long lived assets are 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 the statement of operations. The assessment of fair values, require the use of estimates and assumptions for recoverable production, discount rates, foreign exchange rates, future capital requirements and operating performance. Changes in any of the assumptions or estimates used in determining the fair value of long lived assets could impact the impairment analysis.

Allowance for doubtful accounts, and the recoverability of receivables

Significant estimates are involved in the determination of recoverability of receivables and no assurance can be given that actual proceeds will not differ significantly from current estimations. Management has made significant assumptions about the recoverability of receivables. During the year ended December 31, 2017 the Company recorded an impairment expense of \$191,120 (December 31, 2016: \$30,437) for receivables where collection is doubtful.

Contingencies

The assessment of contingencies involves the exercise of significant judgment and estimates of the outcome of future events. In assessing loss contingencies related to legal proceedings that are pending against the Company and that may result in regulatory or government actions that may negatively impact the Company's business or operations, the Company and its legal counsel evaluate the perceived merits of the legal proceeding or unasserted claim or action as well as the perceived merits of the nature and amount of relief sought or expected to be sought, when determining the amount, if any, to recognize as a contingent liability or when assessing the impact on the carrying value of the Company's assets. Contingent assets are not recognized in the annual financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Income taxes

The assessment of income taxes involved the probability of realizing deferred tax assets, in relation to the expectation of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that the tax position taken will be sustained upon examination by applicable tax authorities. In making its assessment, management give additional weight to positive and negative evidence that can be objectively verified.

Significant judgments

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include:

- the assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty;
- the fair value and classification of financial instruments; and
- the classification of leases as either operating or finance type leases.

Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. At December 31, 2017 and 2016, the Company had no dilutive instruments outstanding.

Financial instruments

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets to the extent they are expected to be realized within 12 months after the end of the reporting period. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary financial assets.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the group commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen.

The Company does not have any derivative financial assets and liabilities.

Impairment of assets

The carrying amount of the Company's non-financial assets (which includes property, plant and equipment) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Any reversal of impairment cannot increase the carrying value of the asset to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

Income taxes

Current income tax:

Current income tax assets and liabilities for the current period 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, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Deferred income tax:

Deferred income tax is recognized, using the asset and liability method, on temporary differences at the reporting date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

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

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Leases

Leases of property, plant and equipment where substantially all the risks and benefits incidental to the ownership of the asset are transferred the Company are classified as finance leases.

Finance leases are capitalized by recording an asset and a liability at the lower of the fair value of the leased property, plant and equipment or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognized as a liability and amortized on a straight-line basis over the life of the lease term.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive loss during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the statement of comprehensive loss.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Amortization is calculated on a straight-line method to write off the cost of the assets to their residual values over their estimated useful lives. The amortization rates applicable to each category of property, plant and equipment are as follows:

Class of property, plant and equipment	Amortization rate
Motor Vehicles	5 years – 20%
Computer equipment	3 years – 33%
Lab equipment	5 years – 20%
Furniture and equipment	7 years – 14%
Machinery and equipment	10 years – 10%
Leasehold improvements	Term of lease

Inventory

Inventory is valued initially at cost and subsequently at the lower of cost and net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. Cost is determined using the weighted average cost basis. The Company reviews inventory for obsolete and slow-moving goods and any such inventory is written-down to net realizable value.

Revenue

Revenue comprises the fair value of consideration received or receivable for the sale of goods, equipment rental agreements and royalty per licensing agreements in the ordinary course of the Company's business. Revenue is shown net of return allowances and discounts.

Revenue from the sale of goods is recognized when the persuasive evidence of an arrangement between the Company and the customer exists, the Company has transferred the significant risks and rewards of ownership to the customer, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be reliably measured, and the probability of the economic benefits of the transaction can be reasonably estimated. Significant risks and rewards are generally considered to be transferred when the Company's suppliers have shipped the product to customers.

Revenue from equipment rental agreements and royalty licensing agreements are recognized based on the terms of the contracts. Revenue is recognized at the fair value of consideration received or receivable.

Cost of goods sold

Cost of goods sold includes the expenses incurred to acquire and produce inventory for sale, including product costs, inbound freight and duty costs, as well as provisions related to product shrinkage, excess or obsolete inventory, or lower of cost and net realizable value adjustments as required.

Standards and interpretations not year adopted

New standard IFRS 9 "Financial Instruments"

This new standard is a partial replacement of IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 introduces new requirements for the classification and measurement of financial assets, additional changes relating to financial liabilities, a new general hedge accounting standard which will align hedge accounting more closely with risk management. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

New standard IFRS 15 "Revenue from Contracts with Customers"

This new standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

New standard IFRS 16 "Leases"

This new standard replaces IAS 17 "Leases" and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is not substantially changed. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted for entities that have adopted IFRS 15.

3. INVENTORY

Inventory consists of cartridges, applicators, pens, jar and all other hard goods for packing of cannabis infused products. As at December 31, 2017, the Company had \$Nil (December 31, 2016 - \$4,645) in inventory.

During the year ended December 31, 2017, \$748,927 (2016 - \$343,398) of inventory was sold and recognized in cost of goods sold.

4. PROPERTY AND EQUIPMENT

	Motor Vehicles	Computer equipment	Furniture and fixtures	Leasehold improvements	Lab equipment	Total
Cost:						
At December 31, 2015	\$ -	\$ -	\$ -	\$ -	\$ 104,735	\$ 104,735
Additions	78,537	21,111	21,559	96,002	139,119	356,328
At December 31, 2016	78,537	21,111	21,559	96,002	243,854	461,063
Additions	58,444	5,445	5,202	13,234	29,948	112,273
At December 31, 2017	\$ 136,981	\$ 26,556	\$ 26,761	\$ 109,236	\$ 273,802	\$ 573,336
Amortization:						
At December 31, 2015	\$ -	\$ -	\$ -	\$ -	\$ 10,879	\$ 10,879
Charge for the period	11,350	2,598	2,081	11,717	20,892	46,638
At December 31, 2016	11,350	2,598	2,081	11,717	31,771	59,517
Charge for the period	22,688	8,027	3,784	36,394	38,922	109,815
At December 31, 2017	\$ 34,038	\$ 10,625	\$ 5,865	\$ 48,111	\$ 70,693	169,332
Net book value:						
At December 31, 2016	\$ 67,187	\$ 18,513	\$ 19,478	\$ 84,285	\$ 212,083	\$ 401,546
At December 31, 2017	\$ 102,943	\$ 15,931	\$ 20,896	\$ 61,125	\$ 203,109	\$ 404,004

5. ACCOUNTS PAYABLES AND ACCRUED LIABILITIES

	December 31, 2017	December 31, 2016
Trade payables	\$ 498,758	\$ 196,684
Amounts due to related parties (Note 7)	54,500	17,000
Amounts due for vehicle loans (Note 8)	7,864	-
	\$ 561,122	\$ 213,684

During the year ended December 31, 2017, \$27,777 (December 31, 2016: \$nil) in accounts payable was written off due to forgiveness by creditors.

6. LOANS PAYABLE

On December 31 2016, the Company entered into a promissory note agreement with a director of the Company for the amount of \$357,483 for the balance outstanding from expenses paid by the director and repayments issued by the Company during the year ended December 31, 2016. The note is interest bearing at 10.5% per annum, unsecured and due on December 31, 2017. On December 31, 2017, the Company entered into a revised promissory note agreement with the director for the amount of \$353,219 for the balance outstanding from expenses paid by the director and repayments issued by the Company during the year ended December 31, 2017. The revised note is interest bearing at 10.5% per annum, unsecured and due on December 31, 2018. As at December 31, 2017, the balance outstanding including accrued interest is \$409,738 (December 31, 2016: \$394,296).

During the year ended December 31, 2015, the Company issued a promissory note to a director of the Company for the amount of \$5,000. The promissory note is non-interest bearing, unsecured and due on demand. As at December 31, 2017, the balance outstanding including accrued interest is \$nil (December 31, 2016: \$2,373).

During the year ended December 31, 2015, the Company issued a promissory note to a company related to a director of the Company for the amount of \$9,274. The promissory note is interest bearing at 10.5% per annum, unsecured and due on demand. As at December 31, 2017, the balance outstanding including accrued interest is \$11,670 (December 31, 2016: \$10,786).

On December 31 2016, the Company entered into a promissory note agreement with a director of the Company for the amount of \$216,002 for the balance outstanding from expenses paid by the director and repayments issued by the Company during the year ended December 31, 2016. The note is interest bearing at 10.5% per annum, unsecured and due on December 31, 2017. On December 31, 2017, the Company entered into a revised promissory note agreement with the director for the amount of \$298,712 for the balance outstanding from expenses paid by the director and repayments issued by the Company during the year ended December 31, 2017. The revised note is interest bearing at 10.5% per annum, unsecured and due on December 31, 2018. As at December 31, 2017, the balance outstanding including accrued interest is \$317,108 (December 31, 2016: \$216,002).

During the year ended December 31, 2015, the Company issued a promissory note to a former director of the Company for the amount of \$16,337. The promissory note is non-interest bearing, unsecured and due on demand. As at December 31, 2017, the balance outstanding including accrued interest is \$9,809 (December 31, 2016: \$14,017).

On October 31, 2017, the Company entered into a business loan and security agreement for the amount of \$30,000. The note is interest bearing at 11.48% per annum, secured by all assets of the Company and due on October 31, 2018. As at December 31, 2017, the balance outstanding including accrued interest is \$27,933 (December 31, 2016: \$nil).

A continuity of the loans payable is as follows:

	December 31, 2017	December 31, 2016
Balance, at the beginning of the year	\$ 637,474	\$ 16,274
Loans issued during the year	212,632	652,702
Interest expense	80,005	59,061
Repayments of loans payable	(153,853)	(90,563)
	\$ 776,258	\$ 637,474

7. RELATED PARTY TRANSACTIONS

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers. The remuneration of directors and key management personnel during the year ended December 31, 2017 and 2016 was as follows:

	December 31, 2017	December 31, 2016
Salaries and wages – CEO of the Company	\$ 25,831	\$ -
Salaries and wages – directors of the Company	72,038	4,000
Salaries and wages – former director of the Company	28,855	-
Share based payments	3,028	-
	\$ 129,752	\$ 4,000

Accounts payable and accrued liabilities

As at December 31, 2017, the following is included in accounts payable in related to transactions with related parties, which are non-interest bearing, unsecured and due on demand:

- i. \$21,500 (December 31, 2016: \$5,000) owing to a director of the company for services rendered.
- ii. \$33,000 (December 31, 2016: \$12,000) owing to a company related to a director of the Company for rent payments.

Loans payable

As at December 31, 2017, included in loans payable is \$748,325 (December 31, 2016 - \$637,474) owing to related parties (Note 6). In relation to the loans payable, during the year ended December 31, 2017, the Company recorded interest expense of \$76,596 (December 31, 2016: \$59,061) from related parties.

Accounts receivables

As at December 31, 2017, the following is included in accounts receivable in related to transactions with related parties:

- i. \$600,810 (December 31, 2016: \$388,792) owing to a company related to a company jointly owned by the CEO and former CFO for all of the revenue incurred.

7. RELATED PARTY TRANSACTIONS (continued)

Transactions with related parties:

During the year ended December 31, 2017, the Company had product sales to a company jointly owned by the CEO and former CFO of \$1,413,930 (2016 - \$717,556).

On October 1, 2016, the Company entered into a commercial lease agreement with a company owned by a director of the Company for its head office. Under the agreement the Company is required to make lease payments for a term of 3 years (Note 8). During the year ended December 31, 2017, the Company recorded rent expense of \$51,000 (December 31, 2016: \$12,000) to the related party.

During the year ended December 31, 2015, the Company entered into an Asset Lease Agreement with a company jointly owned by the CEO and former CFO. Under the agreement, the Company leased its equipment for monthly fees of \$10,000. Shortly after the execution of the agreement, both parties mutually filed amendments for fees payable when new equipment was added to the original leased equipment. During the year ended December 31, 2017, the Company had recognized equipment rental income of \$345,413 (December 31, 2016: \$232,385).

On January 1, 2016, the Company entered into Licensing Agreement with a company jointly owned by the CEO and former CFO (the "Licensee"). Under the agreement, the Company grants the Licensee a non-exclusive, non-transferrable, non-assignable royalty bearing license to reproduce, distribute, publically display, and publicly perform the Licensed IP. As consideration of the license granted, the Licensee shall pay the Company royalty fees of 5% of its gross revenue for a period of three years. On January 1, 2017, the consideration was increased to be 10% of gross revenue. During the year ended December 31, 2017, the Company recognized royalty income of \$476,485 (December 31, 2016: \$116,281).

During the years ended December 31, 2017, the Company incurred \$191,120 to two companies controlled by the Company's CEO (2016 - \$30,437) in connection with the start-up of the businesses. The ability of these companies to repay the amounts owing is uncertain and therefore the amounts receivable have been impaired in full.

Equity

During the year ended December 31, 2017, the Company issued 73,500 post stock split shares to a director of the Company for services rendered for a fair value of \$3,028, recorded as share based payments.

8. COMMITMENTS

Vehicle loans

The Company obtained financing for motor vehicles acquired. The loans are secured by the vehicle financed. The loans have terms ranging from 60 – 72 months and bear interest at 5.60% - 12.35%.

A continuity of the vehicle loans is as follows:

	December 31, 2017	December 31, 2016
Balance, at the beginning of the year	\$ 57,310	\$ -
Loans issued during the year	48,444	78,537
Interest expense	7,993	4,416
Repayments of loans payable	(15,630)	(25,643)
Amounts included in accounts payable (Note 5)	7,864	-
	90,253	57,310
Current	27,030	15,500
Long-term	\$ 63,223	\$ 41,810

8. COMMITMENTS (continued)

A schedule for the Company's future minimum principal payments over the term of the leases is as follows:

Year	Principal payments
2018	\$ 18,664
2019	20,509
2020	22,566
2021	14,852
2022	10,419
2023	3,243
Total	\$ 90,253

Operating lease

The Company has obligations under operating lease for its head office, with a term of three years, expiring on August 31, 2019.

Year	Lease payments
2018	\$ 60,000
2019	40,000
Total	\$ 100,000

9. SHARE CAPITAL

Authorized share capital

The authorized share capital of the Company consists of the following:

127,500,000 common shares with \$0.0001 par value – voting, non-redeemable and noncumulative;

2,000,000 Preferred Stock with \$0.0001 par value – non-voting and noncumulative;

2,000,000 Class A Convertible Preferred Stock with \$0.0001 par value – voting, with stated value of \$1.00, cumulative dividends at the rate per share of 7.5% per annum, and convertible at the option of the holder, at any time, into common shares at a conversion price of \$1.00.

Common shares

On December 6, 2017, the Company issued 147,000 common shares for services rendered with a fair value of \$6,056, of which 73,500 common shares were issued to a director of the Company.

Effective May 8, 2017, the Company executed a forward stock-split of its issued and outstanding common shares on a 1 to 7 basis. All references to common shares, stock options and warrants in these financial statements have been adjusted to reflect this change.

On November 30, 2016, the Company issued 147,000 common shares for services rendered with a fair value of \$6,056.

10. INCOME TAXES

A reconciliation of the expected income tax recovery to the actual income tax recovery is as follows:

	December 31, 2017	December 31, 2016
Net loss	\$ (328,314)	\$ (212,284)
Statutory tax rate	34.0%	34.0%
Expected income tax recovery at the statutory tax rate	\$ (110,000)	\$ (73,000)
Adjustments to prior year provisions versus statutory tax returns	41,000	(107,000)
Change in unrecognized deferred assets	69,000	180,000
Income tax recovery	\$ -	\$ -

As at December 31, 2017, the Company has US tax losses of approximately 240,000 that may be carried forward indefinitely and applied against taxable income of future years.

Tax attributes are subject to review, and potential adjustments, by tax authorities.

11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk

The Company's primary exposure to credit risk is on its accounts receivable. All of the Company's receivables are due from a related party resulting in a concentration of credit risk.

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 has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

Foreign exchange risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company is not exposed to currency risk as its sales and expenditures are denominated in the same currency as its functional currency.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Based on borrowings that accrue interest as at December 31, 2017 and 2016, a 1% change in interest rate would not have a significant impact on net loss.

Fair value

The fair value of the Company's financial assets and liabilities approximates the carrying amount.

12. CAPITAL MANAGEMENT

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of cash and equity comprised of issued share capital.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its board of directors, will balance its overall capital structure through new equity issuances or by undertaking other activities as deemed appropriate under the specific circumstances. The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2016.

13. SUBSEQUENT EVENTS

- (a) Effective October 2018, the Company executed a forward stock-split on a 1 to 6.375 basis. All references to common shares in the subsequent events notes have been adjusted to reflect this change.
- (b) Subsequent to year ended December 31, 2017, the Company issued 3,080,741 common shares for services rendered and settlement of debt, of which 2,647,060 common shares were issued to directors of the Company.
- (c) Subsequent to December 31, 2017, the Company entered into convertible secured debenture agreements (individually, the "Convertible Debenture") for CAD \$1,665,000. The Convertible Debenture bears interest at 0% per annum; however, if the Letter of Intent is terminated in accordance with its terms, the Company shall pay interest at the rate of 9% per annum from the date that is the three month anniversary of the date of termination of the Letter of Intent. The interest shall accrue and shall be payable on the earlier of the maturity date or upon conversion of the Convertible Debenture. The Convertible Debenture is due on October 18, 2020, provided however, that if the Letter of Intent is duly terminated pursuant to its terms, then October 18, 2019. Upon closing of Transaction CAD \$735,000 and CAD \$930,000 of the principal amount of this Convertible Debenture shall automatically, without any action on the part of the lender, convert into share at CAD \$0.035 and \$0.25 per share, respectively.
- (d) Subsequent to December 31, 2017, the Company entered into convertible secured debenture agreements (individually, the "Convertible Debenture") for an aggregate principal amount of CAD \$1,250,000. The Convertible Debenture bears interest at 0% per annum, provided, however that if the Letter of Intent is terminated in accordance with its terms, the Company shall pay interest at the rate of 9% per annum from the date that is the three month anniversary of the date of termination of the Letter of Intent. The interest shall accrue and shall be payable on the earlier of the maturity date or upon conversion of the Convertible Debenture. The Convertible Debenture is due on October 18, 2020, provided however, that if the Letter of Intent is duly terminated pursuant to its terms, then October 18, 2019. Upon closing of the Transaction, the entire principal amount of this Convertible Debenture shall automatically, without any action on the part of the lender, convert into share at CAD \$0.40 per share.
- (e) On November 26, 2018, the Company closed a first tranche of its non-brokered subscription receipts ("Subscription Receipts") private placement offering by issuing 8,110,000 subscription receipts for gross proceeds of CAD \$4,055,000. Concurrent with the Subscription Receipts offering, the Company issued convertible debentures (the "Debentures") in the principal amounts of CAD \$1,386,708. In addition, the Company also issued 2,000,000 shares at an issue price of CAD \$0.50 to settle amounts owing to an arm's length third party equal to CAD \$1,000,000.

14. SUBSEQUENT EVENTS (continued)

Each Subscription Receipt was sold at an issue price of \$0.50. Subject to the satisfaction of the Escrow Release Conditions (as defined below), each Subscription Receipt entitles the holder to receive, without payment of additional consideration or taking of further action, one common share of Blacklist Finco (a wholly-owned subsidiary of Blacklist) (each a "Blacklist Finco Share"), provided that upon completion of the Transaction, which is expected to occur immediately following the issuance of such Blacklist Finco Share, each such Blacklist Finco Share will then be exchanged in accordance with the terms of the Transaction at an exchange ratio of one Blacklist Finco Share for one post-consolidated common share of the Zara ("Zara Share").

The gross proceeds from the issuance of Subscription Receipts have been deposited with Odyssey Trust Company (the "Subscription Receipt Agent"), as the subscription receipt agent, in escrow (the "Escrowed Proceeds") pursuant to a subscription receipt agreement (the "Subscription Receipt Agreement"). The Escrowed Proceeds will be released by the Subscription Receipt Agent to Blacklist Finco upon receipt of a notice (the "Release Notice") to the Subscription Receipt Agent from Blacklist Finco on or prior to 5:00 pm (Toronto time) on March 26, 2019 (as the same may be extended in accordance with the terms of the Subscription Receipt Agreement) (the "Termination Time") indicating (a) the completion or satisfaction, as the case may be, of all conditions precedent to the Proposed Transaction shall have occurred, been satisfied or been waived, other than the issuance of the consideration contemplated by the Proposed Transaction or the filing of the articles of amalgamation or other applicable documentation as may be required pursuant to corporate law; and (b) the receipt of all required shareholder, third party and regulatory approvals in connection with the Proposed Transaction, including the conditional approval of the listing of the Zara Shares on the Canadian Securities Exchange (the "CSE") ((a) and (b) together, the "Escrow Release Conditions"). Upon and subject to the receipt by the Subscription Receipt Agent of the Release Notice the Escrowed Proceeds shall be released to Blacklist Finco and the holders of Subscription Receipts will be issued Blacklist Finco Shares, which are to be then exchanged for Zara Shares upon completion of a three-cornered amalgamation between Blacklist Finco, a wholly owned subsidiary of Zara and Zara as part of the Proposed Transaction.

If the Escrow Release Conditions have not been satisfied, or Blacklist Finco advises the Subscription Receipt Agent, or publicly announces, that it does not intend to satisfy the Escrow Release Conditions, prior to the Termination Time, holders of Subscription Receipts will be refunded the gross proceeds paid for the Subscription Receipts, plus any accrued interest.

The Debentures bear interest at a rate of 0% per annum payable, maturing two years from the date of issuance of the Debenture, provided that if the Proposed Transaction is not completed then the Debenture will no longer be convertible, will bear interest at a rate of 9.0%, accruing three months after the date of the termination, and mature one year from the date of issuance. In accordance with terms of the Debenture, the Debenture is automatically convertible into previously unissued Blacklist Shares at a conversion price of CDN\$0.50 per share upon satisfaction or waiver of the conditions to closing of the Proposed Transaction, all upon and subject to the terms and conditions set forth in the Debenture. Each Blacklist Share will then be exchanged for one Zara Share pursuant to the terms of the Proposed Transaction. The Debentures are secured by a general security agreement of Blacklist.

14. SUBSEQUENT EVENTS (continued)

- (f) On December 10, 2018, the Company closed a second tranche of its non-brokered subscription receipts private placement offering by issuing 6,170,146 subscription receipts for gross proceeds of CAD \$3,085,073. Concurrent with the Subscription Receipts offering, the Company issued convertible debentures in the principal amounts of CAD \$332,700. In addition, the Company also issued 459,390 shares at an issue price of CAD \$0.50 to settle debts owing to certain officers and directors of the Company totaling CAD \$229,695. The terms of the subscription receipts offering and convertible debentures are the same as note 13 (e).