IONIC BRANDS CORP.
(FORMERLY ZARA RESOURCES INC.)

AMENDED AND RESTATED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019

(EXPRESSED IN UNITED STATES DOLLARS)
(UNAUDITED)

MANAGEMENT'S COMMENTS ON
AMENDED AND RESTATED UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTICE OF NO AUDITOR REVIEW OF AMENDED AND RESTATED CONDENSED INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the unaudited condensed consolidated interim financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying amended and restated unaudited condensed consolidated interim financial statements of Ionic Brands Corp. (the "Company") have been prepared by and are the responsibility of the Company's management. The amended and restated unaudited condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and reflect management's best estimates and judgments based on information currently available.

The Company's independent auditor has not performed a review of these amended and restated condensed consolidated interim financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of the condensed consolidated interim financial statements by an entity's auditor.

IONIC BRANDS CORP. (FORMERLY ZARA RESOURCES INC.)
AMENDED AND RESTATED CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT SEPTEMBER 30, 2019 (UNAUDITED)

(Expressed in United States Dollars)

	Notes		September 30, 2019		December 31, 2018
ASSETS					
Current Assets					
Cash		$	385,128	$	99,772
Trade and other receivables	7		8,289,359		5,549,517
Prepaids and deposits			451,170		714,607
Inventory	8		1,467,249		-
Due from related parties	14		2,260,524		-
			12,853,430		6,363,896
Non-Current Assets					
Property and equipment	9,10		2,166,089		381,111
Patents and trademarks	11		1,030,490		-
Goodwill	11		15,373,372		-
TOTAL ASSETS		$	31,423,381	$	6,745,007
LIABILITIES AND SHAREHOLDERS' DEFICIENCY					
Current Liabilities					
Accounts payable and accrued liabilities	12	$	6,319,759	$	1,628,671
Loans payable	13		1,263,678		761,113
Convertible debentures	15		-		12,119,940
Current portion of lease liability	10		313,559		-
Current portion of vehicle loans			25,441		25,496
Subscription receipts	16		-		5,492,364
			7,922,437		20,027,584
Non-Current Liabilities					
Convertible debentures	15		9,061,340		-
Lease liability	10		210,827		-
Vehicle loans			89,449		87,773
TOTAL LIABILITIES			17,284,053		20,115,357
SHAREHOLDERS' EQUTY (DEFICIENCY)					
Share capital	17		36,278,125		1,465,157
Reserves	17		10,986,239		-
Other comprehensive income			(144,539)		-
Accumulated deficit			(32,980,497)		(14,835,507)
TOTAL SHAREHOLDERS' EQUITY (DEFICIENCY)			14,139,328		(13,370,350)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$	31,423,381	$	6,745,007
Nature and continuance of operations	1				
Subsequent events	20				

Approved and authorized for issue by the Board of Directors on November 29, 2019.

"John Gorst" — Director

"Brian Lofquist" — Director

The accompanying notes are integral to these financial statements

IONIC BRANDS CORP. (FORMERLY ZARA RESOURCES INC.)
AMENDED AND RESTATED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018 (UNAUDITED)
(Expressed in United States Dollars)

	Notes	Three Months Ended		Nine Months Ended	
		September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
REVENUE					
Product and service sales	14	$ 2,456,860	$ 1,103,415	$ 7,345,140	$ 2,301,135
Equipment rental income	14	265,924	87,996	1,010,648	263,987
Royalty income	14	98,832	177,548	339,857	501,633
		2,821,616	1,368,959	8,695,645	3,066,755
COST OF GOODS SOLD		(2,458,478)	(567,196)	(6,272,869)	(1,452,371)
GROSS PROFIT		363,138	801,763	2,422,776	1,614,384
OPERATING EXPENSES					
Accretion		310,500	-	459,737	-
Advertising and promotion		88,680	240,742	467,692	309,024
Bad debts		-	1,135,445	-	1,261,610
Depreciation and amortization	9,10,11	116,007	18,273	249,457	65,152
Interest and finance charges		51,194	36,255	1,284,569	78,106
Listing expenses	5	-	-	444,049	-
Marketing and investor relations		347,138	45,846	1,341,668	88,861
Office and administration		287,350	97,900	807,592	236,207
Professional fees		1,385,922	53,553	2,690,488	78,557
Rent expense	14	115,639	8,583	279,296	47,983
Research and development		31,216	(271)	70,692	5,218
Salaries and wages	14	1,503,173	161,896	3,193,076	562,377
Share-based payments	17	263,946	-	7,362,404	-
Transfer agent and regulatory fees		(9,320)	-	64,217	-
Travel		145,398	53,536	510,200	104,288
Utilities		5,423	2,573	9,787	3,171
		4,642,266	1,854,331	19,234,924	2,840,554
OTHER ITEMS					
Gain from asset disposal		6,589	5,612	6,589	5,612
Gain/(loss) on acquisitions	6	(18,736)	-	(747,019)	-
Foreign exchange loss		(399,472)	-	(592,412)	-
NET LOSS & COMPREHENSIVE LOSS		$ (4,690,747)	$ (1,046,956)	$ (18,144,990)	$ (1,220,558)
Basic and diluted loss per share		$ (0.03)	$ (0.02)	$ (0.19)	$ (0.02)
Weighted average number of shares outstanding – basic and diluted		154,244,934	51,001,380	96,122,171	50,831,395

IONIC BRANDS CORP. (FORMERLY ZARA RESOURCES INC.)
AMENDED AND RESTATED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018 (UNAUDITED)

(Expressed in United States Dollars)

	Nine Months Ended	
	September 30, 2019	**September 30, 2018**
Cash Flows from Operating Activities		
Net income (loss) for the period	$ (18,144,990)	$ (1,220,558)
Adjustments for items not affecting cash:		
Accretion	459,737	-
Depreciation	249,457	65,152
Interest and finance charges	533,218	66,087
Listing expenses	444,049	-
Loss on acquisitions	747,019	-
Gain on asset disposal	(6,589)	(5,612)
Share-based payments	7,362,404	-
Shares issued for services rendered	961,582	15,082
	(7,394,114)	(1,079,849)
Changes in non-cash working capital:		
Trade and other receivables	(2,170,637)	(286,666)
Accounts payable and accrued liabilities	2,829,948	351,985
Prepaids and deposits	350,646	(25,122)
Inventory	(936,284)	-
Due from related parties	(2,260,524)	-
	(9,580,965)	(1,139,652)
Cash Flows (used in) Investing Activities		
Purchase of property and equipment	(1,139,354)	(17,875)
Purchase of intangible assets	(526,947)	-
Cash acquired from on business acquisitions	(1,300,289)	-
	(2,966,590)	(17,875)
Cash flows from Financing Activities		
Proceeds from convertible debentures, net	13,653,065	1,261,875
Proceeds from share issuance, net	1,209,535	-
Principal elements of lease payments	524,386	-
Repayment of loans payable, net	(3,016,474)	(68,779)
Repayment of vehicle loans	(26,860)	(25,313)
	12,343,653	1,167,783
Effect of exchange rate changes on cash	489,258	-
Changes in cash during the period	(203,902)	10,256
Cash, beginning of period	99,772	13,618
Cash, end of period	$ 385,128	$ 23,874

The accompanying notes are integral to these financial statements

IONIC BRANDS CORP. (FORMERLY ZARA RESOURCES INC.)
AMENDED AND RESTATED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 (UNAUDITED)
(Expressed in United States Dollars, except number of shares)

	Common Shares					
	Number of Shares	Amount	Reserves	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
Balance, December 31, 2017	48,730,502	$ 130,976	$ -	$ -	$ (540,177)	$ (409,201)
Net loss for the period	-	-	-	-	(1,220,558)	(1,220,558)
Shares issued for services rendered	2,333,242	15,082	-	-	-	15,082
Balance, September 30, 2018	51,063,744	146,058	-	-	(1,760,735)	(1,760,735)
Net loss for the period	-	-	-	-	(13,074,772)	(13,074,772)
Shares issued for:						
Services rendered	441,000	220,499	-	-	-	222,559
Settlement of debts	2,746,497	1,098,600	-	-	-	1,098,600
Balance, December 31, 2018	54,251,241	1,465,157	-	-	(14,835,507)	(13,370,350)
Net loss for the period	-	-	-	-	(18,144,990)	(18,144,990)
Blacklist shares exchanged	(54,251,241)	-	-	-	-	-
Shares issued for:						
Conversion of convertible debentures	32,363,816	12,119,940	28,237	-	-	12,148,177
Services rendered	1,216,400	457,241	-	-	-	457,241
Settlement of debt	660,819	327,955	-	-	-	327,955
Conversion of subscription receipts	14,280,146	5,492,364	89,057	-	-	5,581,421
Finders fee shares	7,403,313	2,913,740	-	-	-	2,913,740
Reverse acquisition	54,251,241	-	-	-	-	-
Exercise of warrants	7,862,400	3,338,822	(2,137,467)	-	-	1,201,355
Patent acquisition	1,154,746	650,000	-	-	-	650,000
Vegas Valley Growers acquisition	34,985,634	7,719,866	-	-	-	7,719,866
Natural Extractions acquisition	9,635,150	4,474,400	-	-	-	4,474,400
Recapitalization of Zara	332,605	123,803	-	-	-	123,803
Issuance of financing fee warrants	-	-	656,382	-	-	656,382
Issuance of performance warrants	-	-	5,751,652	-	-	5,751,652
Issuance of convertible debentures	-	-	5,036,241	-	-	5,036,241
Conversion of new convertible debentures	26,666	17,819	(2,598)	-	-	15,221
Issuance of stock options	-	-	1,564,735	-	-	1,564,735
Share issuance costs	-	(2,822,982)	-	-	-	(2,822,982)
Currency translation adjustments	-	-	-	(144,539)	-	(144,539)
Balance, September 30, 2019	164,172,962	$ 36,278,125	$ 10,986,239	$ (144,539)	$ (32,980,497)	$ 14,139,328

The accompanying notes are integral to these financial statements

1. NATURE AND CONTINUANCE OF OPERATIONS

Ionic Brands Corp. (formerly Zara Resources Inc.) (“Ionic”, “Zara” or the “Company”) was incorporated on October 9, 2012 in the province of Ontario. On July 3, 2013, the Company received its Certificate of Continuation and is now a company governed under the British Columbia Business Corporation Act. The Company is a public company whose common shares are listed for trading on the Canadian Securities Exchange (“CSE”) under the symbol “IONC”. The head office of the Company is located at 1142 Broadway, Suite 300, Tacoma, Washington, USA.

Reverse Takeover

On March 22, 2019, the Company completed the acquisition of Blacklist Holdings Inc. (“Blacklist”), a private Washington-based company incorporated on February 26, 2014. Blacklist’s business is in the sale of cannabis related services, hard goods (such as cartridges, applicators, pens, jars, etc.), licensing its intellectual property (“Licensed IP”) and the providing of services and leasing its equipment to processors. The Company acquired all of the issued and outstanding shares of Blacklist under a share purchase agreement (the “Reverse Takeover Transaction”, the “Transaction”, or the “RTO”). In connection to the Transaction, the Company changed its name from Zara Resources Inc. to Ionic Brands Corp. and operating the primary business of Blacklist.

On the closing of the RTO, Blacklist became a wholly-owned subsidiary of the Company. As Blacklist is deemed to be the accounting acquirer for accounting purposes, its assets and liabilities and operations since incorporation on February 26, 2014 are included in the amended and restated condensed consolidated financial statements at their historical carrying value.

The Company’s results of operations are included from March 22, 2019 onwards, the closing date. Please refer to the Reverse Acquisition (Note 5) for more details.

Acquisition of Subsidiaries

During the nine months ended September 30, 2019, Blacklist acquired two privately owned companies from a related party and two privately owned companies from unrelated parties. Please refer to Note 6 for more details.

2. NATURE OF OPERATIONS AND GOING CONCERN

These amended and restated condensed consolidated interim financial statements have been prepared by management on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Company be unable to continue as going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. To date, the Company has not attained profitable operations.

For the nine months ended September 30, 2019, the Company incurred a net loss of $18,144,990, a working capital of $4,930,993 and has an accumulated deficit of $32,980,497. The Company’s ability to continue as a going concern is dependent upon its ability to achieve and maintain profitable operations and to generate funds therefrom. If the Company is unable to generate sufficient revenue from its sales, it will cast significant doubt on the Company’s ability to continue as a going concern.

These amended and restated financial statements do not reflect the adjustments to the carrying value of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary were the going concern assumptions inappropriate. These adjustments could be material.

3. BASIS OF PREPARATION

Statement of Compliance

These amended and restated condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") using accounting policies consistent with IFRS issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). Accordingly, these amended and restated condensed interim consolidated financial statements do not include all of the information and footnotes required by IFRS for complete financial statements for year-end reporting process.

Functional and Presentation Currency

These amended and restated condensed consolidated interim financial statements are presented in United States dollars. The functional currency of the Company is measured using the principal currency of the primary economic environment in which each entity operates. The functional currency of the United States entities is in United States dollars. The functional currency of the Canadian entities is in Canadian dollars.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Foreign exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the costs of assets when they are regarded as an adjustment to interest costs on those currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks, and
- Exchange differences on monetary items received from or payable to a foreign operation which settlement is neither planned nor likely to occur, which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

Basis of Consolidation

These amended and restated consolidated financial statements include the accounts of the Company and its controlled entities. Control is achieved when the Company has the power to govern the financial operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until the date on which control ceases.

As defined in IFRS 10, Blacklist took control over Natural Extractions, Inc. ("NE") and management concluded that NE is to be consolidated into the Company as at April 1, 2019.

As defined in IFRS 10, Blacklist took control over Vegas Valley Growers North LLC ("VVG") and management concluded that VVC is to be consolidated into the Company as at April 1, 2019.

(Expressed in United States Dollars)

3. BASIS OF PREPARATION (continued)

Basis of Consolidation (continued)

The following subsidiaries have been consolidated for all dates presented within these financial statements:

Subsidiary	Ownership	Location
Blacklist Holdings Inc.	100%	USA
Blacklist Finco Inc. (“Blacklist Finco”)	100%	Canada
Blacklist Holdings OR Inc. (“Blacklist Oregon”)	100%	USA
Blacklist Brands CA Inc. (“Blacklist California”)	100%	USA
Vegas Valley Growers North LLC (“VVG”)	100%	USA
Natural Extractions, Inc. (“NE”)	100%	USA

All intercompany transactions, balances, income and expenses are eliminated in full upon consolidation.

See Note 6 regarding the consolidations of NE and VVG.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the financial statements in conformity with IFRS requires management to make judgments in applying its accounting policies and estimates and assumptions about the future. These judgments, estimates, and assumptions affect the reported amounts of assets and liabilities at the reporting date and reported amounts of revenue and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstance. Actual results may differ from these estimates under different assumptions or conditions. The following discusses the most significant accounting judgments, estimates and assumptions that the Company has made in the preparation of its financial statements.

Areas of Judgment

Estimated Useful Lives and Depreciation of Property 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 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 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 three months ended September 30, 2019, the Company recorded an impairment expense of $nil (September 30, 2018 - $nil) for receivables where collection is doubtful.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Areas of Judgment (continued)

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 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 consolidated financial statements.

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 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 condensed consolidated interim 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 condensed consolidated interim 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.

5. REVERSE ACQUISITION

On March 22, 2019, pursuant to the terms of the share exchange agreement (the "Agreement") the Company and Blacklist completed an amalgamation, whereby the Company acquired all of the issued and outstanding share capital of Blacklist, being 54,251,241 common shares, as a means by which Blacklist will attain a public listing of its common shares.

Pursuant to the Share Exchange Agreement:

- The Company consolidated its issued and outstanding capital at a ratio that results in 332,066 Zara shares outstanding. The Zara shares issued in connection with the Transaction were issued on a post-consolidation basis.
- The Company and Blacklist completed a "three-cornered" amalgamation (the "Amalgamation") whereby a wholly-owned subsidiary of Zara, 1185669 BC Ltd ("Zara Subco") amalgamated with a wholly-owned subsidiary of Blacklist, Blacklist Finco Inc. ("Blacklist Finco"). Upon completion of the Amalgamation, one common share of Blacklist Finco was exchanged for one Zara share, with an aggregate of 14,280,146 Zara shares being issued. Each common share of Blacklist Finco exchanged under the Amalgamation was issued upon the conversion of subscription receipts of Blacklist Finco pursuant to their terms in the private placement completed in tranches on November 26, 2018 and December 4, 2018.

(Expressed in United States Dollars)

5. REVERSE ACQUISITION (continued)

- The Company issued on closing 5,250,000 Zara shares to certain finders at a deemed price of $0.50 per Zara share as finders' fees
- As a result of the Transaction, Zara issued an aggregate of 54,251,241 Zara shares to Blacklist shareholders. At the completion of the Transaction, 108,436,715 Zara common shares were outstanding.
- At the closing of the Transaction, the shareholders of Blacklist held 50% of Zara. Accordingly, Blacklist is considered to have acquired Zara with the transaction being accounted for as a reverse takeover of Zara by Blacklist shareholders.

The acquisition constitutes an asset acquisition as the Company does not meet the definition of a business, as defined in IFRS 3, Business Combinations. Additionally, as a result of the RTO, the statement of financial position has been adjusted for the elimination of the Company share capital, contributed surplus and accumulated deficit within shareholders'' equity.

As a result of this asset acquisition, a listing expense of $444,049 has been recorded. This reflects the difference between the estimated fair value of Blacklist shares deemed to have been issued to the Company's shareholders less than the fair value of the assets of the Company's acquired.

The preliminary allocation of estimated consideration transferred is subject to change and is summarized as follows:

Purchase Price		
54,251,241 common shares of Zara Resources Inc.	$	123,803
Total Purchase Price	$	123,803
Allocation of Purchase Price		
Other current assets	$	5,395
Accounts payable and accrued liabilities		(325,641)
Charge related to public company listing		444,049
	$	123,803

6. ACQUISITION OF SUBSIDIARIES

Blacklist Brands CA Inc.

On January 1, 2019, Blacklist acquired 100% outstanding shares of Blacklist Brands CA Inc., a company, wholly-owned by the CEO, incorporated on August 9, 2018 in the state of California for a consideration of $10.

This acquisition constitutes as an acquisition of business as defined in IFRS 3, and management concluded that the book values equal fair values of the assets and liabilities acquired as at January 1, 2019.

The allocation of consideration transferred is summarized as follows:

Due from unrelated party	$	93,211
Fixed assets		10,000
Security deposits		5,250
Due to related parties		(284,592)
Loss on acquisition		176,141
	$	10

(Expressed in United States Dollars)

6. ACQUISITION OF SUBSIDIARIES (continued)

Blacklist Holdings OR Inc.

Also on January 1, 2019, Blacklist acquired 100% outstanding shares of Blacklist Oregon Inc., a company, wholly-owned by the CEO, incorporated on August 9, 2018 in the state of Oregon for a consideration of $10.

This acquisition constitutes as an acquisition of business as defined in IFRS 3, and management concluded that the book values equal fair values of the assets and liabilities acquired as at January 1, 2019.

The allocation of consideration transferred is summarized as follows:

Cash	$	27,333
Accounts receivable		2,091
Due to related parties		(581,555)
Loss on acquisition		552,141
	$	10

Natural Extractions, Inc.

On April 1, 2019, Blacklist signed a management agreement with Natural Extractions, Inc. ("NE"), a company incorporated in the state of Washington, whereby Blacklist provides management services to NE and retains 100% gross revenues less payments due and owing from operations of NE. At the same time, Blacklist also entered into a letter of intent with NE shareholders whereby Blacklist shall acquire the assets and operations of NE for a consideration consisting of a cash payment of $855,000 and issuance of 9,635,150 common shares at a stated price of CAD$1.30 per share, as well as issuance of up to 4,800,000 share purchase warrants with an exercise price of CAD$1.33 per share, exercisable over 3 years.

This management agreement resulted in giving Blacklist control over NE as defined in IFRS 10, and management concluded that NE is to be consolidated into the Company as at April 1, 2019.

Early evaluation of this acquisition has assessed the fair value of the consideration to be $4,474,400. This consideration has been allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. Due to the timing of the acquisition, the fair values assigned to the consideration paid and net assets acquired are preliminary and may be revised by the Company as additional information is received.

The preliminary allocation of consideration transferred is summarized as follows:

Accounts receivable	$	267,348
Prepaid expenses		24,959
Inventory		160,965
Fixed assets		178,587
Intangible assets		46,597
Other assets		12,403
Due from related parties		87,760
Bank indebtedness		(19,139)
Accounts payable and accrued liabilities		(603,219)
Other liabilities		(67,765)
Notes payable		(2,928,821)
Goodwill		7,314,725
	$	4,474,400

As at September 30, 2019, Blacklist had completed its acquisition of NE's assets and operations, and the Company issued 9,635,150 common shares as consideration for the acquisition.

(Expressed in United States Dollars)

6. ACQUISITION OF SUBSIDIARIES (continued)

Vegas Valley Growers North, LLC

In November 2018, Blacklist entered an agreement with Vegas Valley Growers North, LLC ("VVG") to acquire all of VVG's assets for a consideration consisted of $7,000,000 in cash and $1,000,000 in common shares. In April 2019, the Company executed a definitive agreement to acquire from VVG's members 100% of the Membership interests of VVG by paying to the Members of VVG $7,620,000 in cash and issued 2,814,180 common shares at CAD$0.5952 for a total consideration of $8,870,000 (see Note 17). Such definitive agreement included certain conditions to closing that have not been fulfilled.

Prior to the execution of the VVG definitive agreement, the Company entered into an Agreement with Vegas Valley Capital Corp. ("VVC"), an entity unrelated to Vegas Valley Growers North, in which the Company was to issue its common shares to VVC in exchange for $7,000,000 cash.

On March 1, 2019, a consulting agreement with a former principal of VVG was also entered and such services commenced in full on March 1, 2019.

On May 6, 2019, Blacklist signed an Agreement to acquire 100% outstanding shares of VVC (see Note 17) whereby Ionic is liable for all tax and other liabilities of VVG effective March 1, 2019. Early evaluation of this acquisition has assessed the fair value of the consideration to be $8,999,088.

This acquisition constitutes as an acquisition of business as defined in IFRS 3. The consideration has been allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. Due to the timing of the acquisition, the fair values assigned to the consideration paid and net assets acquired are preliminary and may be revised by the Company as additional information is received.

The preliminary allocation of consideration transferred is summarized as follows:

Accounts receivable	$	188,758
Inventory		370,000
Fixed assets		648,059
Due from related parties		14,719
Bank Indebtedness		(29,241)
Payroll liabilities		(2,853)
Sales tax payable		(79,000)
Goodwill		8,058,646
	$	9,169,088

As at September 30, 2019, Blacklist was still awaiting official approval for the transfer of Cannabis licenses from the Nevada Department of Taxation and therefore had not yet completed its acquisition of VVG assets and operations.

(Expressed in United States Dollars)

7. TRADE AND OTHER RECEIVABLES

	September 30, 2019	December 31, 2018
Trade receivables	$ 5,862,974	$ 57,153
Other receivables	2,426,385	-
Subscription receipts	-	5,492,364
	$ 8,289,359	$ 5,549,517

Trade receivables are sales due from the Company's customers, net of allowance of doubtful accounts of $3,263,121. As at September 30, 2018, the Company assessed the collectability of the balance and concluded that none of the receivables were uncollectible.

In anticipation of the Transaction, the Company underwent financing through subscription receipts totaling $5,492,364, which were converted to common shares of Zara when the Transaction was completed on March 22, 2019.

8. INVENTORY

	September 30, 2019	December 31, 2018
Raw materials	$ 395,757	$ -
Work in progress	16,011	-
Finished goods	1,055,481	-
	$ 1,467,249	$ -

During the three and nine months ended September 30, 2019, total cost of inventory sold was $668,453 (September 30, 2018 - $527,200) and $3,474,936 (September 30, 2018 - $1,276,022), respectively.

9. PROPERTY AND EQUIPMENT

	Motor Vehicles ($)	Computer Equipment ($)	Furniture and Fixtures ($)	Leasehold Improvements ($)	Lab Equipment ($)	Leased Lab Equipment ($)	Total ($)
Cost:							
At December 31, 2017	136,981	26,556	26,761	109,236	273,802	-	573,336
Additions	64,991	15,121	22,308	28,270	21,729	-	152,419
Disposal	(19,296)	-	-	-	-	-	(19,296)
At December 31, 2018	182,676	41,677	49,069	137,506	295,531	-	706,459
Additions	68,499	116,954	54,379	108,569	997,421	718,370	2,064,192
Disposal	(53,122)	-	-	-	-	-	(53,122)
At September 30, 2019	198,053	158,631	103,448	246,075	1,292,952	718,370	2,717,529
Amortization:							
At December 31, 2017	34,038	10,625	5,865	48,111	70,693	-	169,332
Charge for the year	28,618	9,917	4,414	60,943	55,361	-	159,253
Eliminated on disposal	(3,237)	-	-	-	-	-	(3,237)
At December 31, 2018	59,419	20,542	10,279	109,054	126,054	-	325,348
Charge for the period	21,302	21,442	6,294	24,607	112,873	59,864	246,382
Eliminated on disposal	(20,290)	-	-	-	-	-	(20,290)
At September 30, 2019	60,431	41,984	16,573	133,661	238,927	59,864	551,440
Net Book Value:							
At December 31, 2018	123,257	21,135	38,790	28,452	169,477	-	381,111
At September 30, 2019	137,622	116,647	86,875	112,414	1,054,025	658,506	2,166,089

(Expressed in United States Dollars)

9. PROPERTY AND EQUIPMENT (continued)

During the year ended December 31, 2018, Blacklist disposed of a vehicle for proceeds of $28,145, resulting in a gain on sale of assets of $5,612. During the nine months ended September 30, 2019, Blacklist disposed of a vehicle for $nil proceeds, resulting in a gain from disposition of assets of $6,589.

10. LEASES

In April 2019, Blacklist leased lab equipment with a carrying amount of $718,370 under the lease that expires in 24 months. Under the terms of the lease, Blacklist was required to make an initial payment of $101,250 and then 23 subsequent monthly payments of $31,972. The lease contains an imputed interest rate of approximately 18%. At the end of the lease, the Company has the option to purchase the equipment for $1.

The statement of financial position shows the following amounts relating to leases:

	September 30, 2019 ($)	December 31, 2018 ($)
Right-of-use assets		
Lab equipment	658,506	-
Lease liabilities		
Current	313,559	-
Non-current	210,827	-
	524,386	-

The statement of loss shows the following amounts relating to leases:

	September 30, 2019 ($)	December 31, 2018 ($)
Depreciation charge of right-of-use assets		
Lab equipment	59,864	-
Interest expense (included in interest and finance charges)	35,334	-

The total cash outflow for leases for the nine months ended September 30, 2019 was $229,318.

The Company leases lab equipment and these contracts are typically made for fixed period of 2 years, but may have extension options as described below.

Lease terms are negotiated on an individual basis and lease agreements do not impose any covenants other than the security interests in the leased asset are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the Company under residual value guarantees;
- The exercise price of a purchase option if the Company is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

10. LEASES (continued)

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case of leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-to-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:

- Where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- Uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by Blacklist, which does not have recent third party financing, and
- Makes adjustments specific to the lease, e.g. term, country, currency and security.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-to-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs, and
- Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

(Expressed in United States Dollars)

11. PATENTS, TRADEMARKS AND GOODWILL

	Patents ($)	Trademarks ($)	Goodwill ($)	Total ($)
Cost:				
At December 31, 2017	-	-	-	-
Additions	-	-	-	-
At December 31, 2018	-	-	-	-
Additions	1,025,870	27,985	15,373,372	16,427,227
At September 30, 2019	1,025,870	27,985	15,373,372	16,427,227
Amortization:				
At December 31, 2018	-	-	-	-
Charge for the year	-	-	-	-
At December 31, 2018	-	-	-	-
Charge for the period	23,365	-	-	23,365
At September 30, 2019	23,365	-	-	23,365
Net Book Value:				
At December 31, 2018	-	-	-	-
At September 30, 2019	1,002,505	27,985	15,373,372	16,403,862

During the nine months ended September 30, 2019, the Company acquired two patents, to be used in the Company's anticipated beverage products, from an unrelated party with expiry dates on August 5, 2035 and March 1, 2037. These patents are to be used in the Company's anticipated beverage products.

During the nine months ended September 30, 2019, the Company consolidated the intangible assets of NE, consisting of trademarks and goodwill, into its financial statements per the management agreement entered into with NE as well as goodwill generated from the acquisitions of NE and VVG (see Note 6). These trademarks and goodwill have indefinite lives.

12. ACCOUNTS PAYABLES AND ACCRUED LIABILITIES

		September 30, 2019		December 31, 2018
Trade payables	$	3,905,284	$	1,170,589
Accrued expenses		76,751		356,915
Amounts due to related parties		2,337,724		101,167
	$	6,319,759	$	1,628,671

Accounts payables and accrued liabilities comprise primarily of trade payables incurred in the normal course of business. Included in accounts payable are amounts totaled $2,337,724 (December 31, 2018 - $101,167) due to related parties (see Note 15).

13. LOANS PAYABLE

During the year ended December 31, 2015, Blacklist issued a promissory note to a company related to a director of Blacklist for the amount of $9,274. The promissory note was interest bearing at 10.5% per annum, unsecured and due on demand. During the year ended December 31, 2018, $390,550 of balance outstanding and accrued interest of a director of Blacklist was assigned to a company related to a director of Blacklist. During the nine month ended September 30, 2019, Blacklist borrowed a further $430,474 from the lender and paid $540,959 towards the loan. As at September 30, 2019, the balance outstanding included accrued interest was $157,569 (December 31, 2018 - $268,054). During the three and nine months ended September 30, 2019, the Company recorded interest expense of $4,599 and $50,091 (September 30, 2018 - $11,559 and $30,641), respectively.

(Expressed in United States Dollars)

13. LOANS PAYABLE (continued)

On December 31, 2016, Blacklist entered into a promissory note agreement with a former director of Blacklist for the amount of $216,002 for the balance outstanding from expenses paid by the director and repayments issued by Blacklist 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, Blacklist entered into a revised promissory note agreement with the former director for the amount of $298,712 for the balance outstanding from expenses paid by the director and repayment issued by Blacklist during the year ended December 31, 2017. The revised note is interest bearing at 10.5% per annum, unsecured and was extended to December 31, 2019. During the nine months ended September 30, 2019, Blacklist borrowed a further $635,446 from the lender, who resigned from his position subsequent to September 30, 2019, and paid $603,000 towards the loan. As at September 30, 2019, the balance outstanding including accrued interest was $238,815 (December 31, 2018 - $206,369). During the three and nine months ended September 30, 2019, the Company recorded interest expense of $7,988 and $31,089 (September 30, 2018 - $12,614 and $28,296), respectively.

In December 2018, Blacklist entered into a business loan agreement for the amount of $162,000. The note was non-interest bearing, due and payable upon the completion of Blacklist's next financing. As at September 30, 2019, the balance outstanding was $nil (December 31, 2018 - $162,000) as the loan was repaid from the proceeds of the convertible debentures issued in May 2019.

In December 2018, Blacklist entered into a business loan agreement for the amount of $124,690. The note was non-interest bearing, due and payable upon the completion of Blacklist's next financing. As at September 30, 2019, the balance outstanding was $nil (December 31, 2018 - $124,690) as the loan was repaid from the proceeds of the convertible debentures issued in May 2019.

On January 30, 2018, Blacklist entered into a Bridge loan agreement (the "Bridge Loan") with an unrelated third party, whereby Blacklist received a loan of $2,463,614 (CAD $3,250,000).The Bridge Loan matures on May 15, 2019 with no interest. In connection with the loan, a financing fee of $200,850 (CAD $260,000) was paid. The Bridge Loan was fully repaid upon completion of the Transaction from the Subscription Receipts proceeds.

On February 28, 2019, Blacklist entered into a bridge loan agreement (the "Bridge Loan") with an unrelated third party, whereby Blacklist received a loan of $1,898,398 (CAD $2,500,000). The bridge loan matures one year from the closing date and carries an interest rate of 17% per annum, compounded monthly, payable in arrears. The Bridge loan has a minimum interest payment $115,385 (CAD $150,000) should the principal be repaid prior to the maturity date. In connection with the Bridge Loan, a financing fee of $70,770 (CAD $92,000) was paid and 2,000,000 share purchase warrants were issued (see Note 17).

During the three months ended March 31, 2019, the Company entered into a loan agreement for $2,150,000 with an unrelated third party. The note is interest bearing at 17% per annum, and due on May 15, 2019. The Company used all Blacklist assets as collateral to secure the loan. In addition, the Company has to pay a finance fee of CAD $260,000, an extension fee of CAD $26,000 and issue 2,600,000 share purchase warrants to the lender. As at September 30, 2019, the balance outstanding including accrued interest was $nil (December 31, 2018 - $nil) as the loan was repaid from the proceeds of the convertible debentures issued in May 2019.

		September 30, 2019		December 31, 2018
Balance, beginning	$	761,113	$	776,258
Issued		7,708,075		537,573
Interest expense		590,218		84,177
Settlement of loans payable		-		(200,000)
Repayment of loans payable		(7,795,728)		(436,895)
Balance, ending	$	1,263,678	$	761,113

(Expressed in United States Dollars)

14. 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 three and nine months ended September 30, 2019 and 2018 was as follows:

	Three Months Ended		Six Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Salaries and wages	$ 451,498	$ 130,177	$ 1,161,961	$ 272,153
Rent	6,000	9,000	24,000	42,000
	$ 457,498	$ 139,177	$ 1,185,961	$ 314,153

Accounts Payable and Accrued Liabilities
As at September 30, 2019, the following amounts in accounts payable were due to related parties:

- $33,377 (December 31, 2018 - $41,167) owing to a director for services rendered;
- $24,000 (December 31, 2018 - $57,000) owing to a company controlled by a director for rent.

Loans Payable
As at September 30, 2019, $396,384 (December 31, 2018 - $474,423) in loans payable were owed to related parties (Note 14). During the three and nine months ended September 30, 2019, the Company recorded interest expense of $27,732 and $61,035 (September 30, 2018 - $24,173 and $58,937), respectively, paid to related parties for these loans.

Accounts Receivable
As at September 30, 2019, $297,056 (December 31, 2018 - $57,193) in accounts receivable were due from a company related to a company jointly owned by the Company's CEO and former CFO.

Loan Receivable
In May 2019, the Company advanced $25,000 to an officer of the Company. This loan bears interests at 3% per annum, secured by the Company's common shares the borrower owns and due when the borrower is authorized to sell the Company's common shares that the borrower owns. Interest expenses are to be paid on the first day of each month, commencing on September 1, 2019.

Transactions with Related Parties
During the three and nine months ended September 30, 2019, the Company had product and service sales to a company jointly owned by the Company's CEO and former CFO of $722,465 and $2,652,013 (September 30, 2018 - $1,103,415 and $2,301,135), respectively.

On October 1, 2017, Blacklist entered into a commercial lease agreement with a company controlled by a former director for its former head office. Under the agreement, Blacklist is required to make lease payments for a term of 3 years. During the three and nine months ended September 30, 2019, the Company recorded rent expense of $6,000 and $24,000 (September 30, 2018 - $9,000 and $42,000) to the related party, respectively.

During the year ended December 31, 2016, Blacklist entered into an asset lease agreement with a company controlled by the Company's CEO and former CFO. Under the agreement, Blacklist is the lessor, originally leased the equipment for monthly rental of $10,000. Shortly after the execution of the agreement, both parties mutually filed amendments to the lease to represent additional equipment. During the three and nine months ended September 30, 2019, the Company recognized equipment rental income of $230,797 and $517,079 (September 30, 2018 - $87,996 and $263,987), respectively.

14. RELATED PARTY TRANSACTIONS (continued)

On January 1, 2017, Blacklist entered into an agreement with a company jointly controlled by the Company's CEO and former CFO (the "Licensee"). Under the agreement, Blacklist granted the Licensee a non-exclusive, non-transferrable, non-assignable license to reproduce, distribute, publically display, and publically use the IONIC trademark. At granted commencement, the Licensee was to pay licensing fees of 5% of its gross revenue for 3 years. On January 1, 2018, the license fee was increased to 10% of gross revenue. During the three and nine months ended September 30, 2019, the Company recognized royalty income of $55,620 and $184,291 (September 30, 2018 - $177,548 and $501,633), respectively.

During the three and nine months ended September 30, 2019, the Company earned $1,131,772 and $1,494,078 (September 30, 2018 - $nil and $nil) in procurement fees from a company jointly controlled by the Company's CEO and former CFO.

During the three and nine months ended September 30, 2019, the Company had product and service sales to a company partially owned by an officer of the Company of $53,510 and $183,390 (September 30, 2018 - $nil and $nil) respectively.

During the three and nine months ended September 30, 2019, the Company earned $13,426 and $854,690 (September 30, 2018 - $nil and $nil) in procurement fees from a company partially owned by an officer of the Company.

During the three and nine months ended September 30, 2019, the Company incurred expenses of $303,356 and $495,049 (September 30, 2018 - $73,097 and $231,925) to 2 companies controlled by the Company's CEO, respectively. The ability of these companies to repay the amounts owing is uncertain, and therefore, a portion of the amounts receivable have been impaired.

15. CONVERTIBLE DEBENTURES

On July 6, 2018, Blacklist entered into convertible secured debenture agreements (individually, the "Convertible Debenture") for $577,459 (CAD $735,000). The Convertible Debenture bore interest at 0% per annum, provided, however, that if the Transaction was terminated in accordance with its terms, Blacklist 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 Transaction. 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 if the Transaction was duly terminated pursuant to its terms, then October 18, 2019. On March 22, 2019, upon closing of the Transaction, the principal amount of this Convertible Debenture was converted to 21,000,000 common shares of Zara at CAD $0.035 per share.

On October 2, 2018, Blacklist entered into convertible secured debenture agreements (individually, the "Convertible Debenture") for $942,790 (CAD $1,200,000). The Convertible Debenture bore interest at 0% per annum, provided, however that if the Transaction was terminated in accordance with its terms, Blacklist 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 Transaction. 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 Transaction was duly terminated pursuant to its terms, then October 18, 2019. On March 22, 2019, upon closing of the Transaction, the principal amount of this Convertible Debenture was converted to 4,800,000 common shares of Zara at CAD $0.25 per share.

(Expressed in United States Dollars)

15. CONVERTIBLE DEBENTURES (continued)

On October 10, 2018, Blacklist entered into convertible secured debenture agreements (individually, the "Convertible Debenture") for $982,073 (CAD $1,250,000). The Convertible Debenture bore interest at 0% per annum, provided, however that if the Transaction was terminated in accordance with its terms, Blacklist 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 Transaction. 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 10, 2020, provided however, that if the Transaction was duly terminated pursuant to its terms, then November 26, 2019. On March 22, 2019, upon closing of the Transaction, the principal amount of this Convertible Debenture was converted to 3,125,000 common shares of Zara at CAD $0.40 per share.

On November 26, 2018, Blacklist entered into convertible secured debenture agreements (individually, the "Convertible Debenture") for $1,350,869 (CAD $1,719,408). The Convertible Debenture bore interest at 0% per annum, provided, however that if the Transaction was terminated in accordance with its terms, Blacklist 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 Transaction. 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 November 26, 2020, provided however, that if the Transaction was duly terminated pursuant to its terms, then November 26, 2019. On March 22, 2019, upon closing of the Transaction, the principal amount of this Convertible Debenture was converted to 3,428,816 common shares of Zara at CAD $0.50 per share.

		September 30, 2019		December 31, 2018
Beginning balance	$	12,119,940	$	-
Issue of convertible debentures, net		-		3,853,191
Change in fair value of convertible debentures (1)		-		8,266,749
Conversion to common shares		(12,119,940)		-
Ending balance	$	-	$	12,119,940

(1) The fair value is calculated based on the November 26, 2018 arm's length financing which the shares would be converted at fair value at $0.50 per share. Blacklist was a private company at the end of December 31, 2018, thus the November 2018 financing would be the most appropriate representation of Blacklist's share s fair value.

On May 16, 2019, the Company issued 19,759 convertible debenture units ("Debenture units") for gross proceeds of $14,702,731 (CAD$19,759,000).

Each Debenture Unit consists of:
(i) CAD$1,000 principal amount of 8.0% unsecured debentures convertible into common share of the Company at a conversion price of CAD$0.75 per share and matures on May 16, 2022;
(ii) 1,333 common share purchase warrants of the Company, each warrant entitles the holder to purchase a common share at an exercise price of CAD$0.90 until May 16, 2019, subject to acceleration in certain circumstances.

The loan's embedded conversion feature was determined to meet the definition of a compound financial instrument required to assign a fair value to the debt with any residual amount recorded as equity. The conversion feature value has been determined to be $5,036,242 (CAD$6,768,205). The borrowing amount represents the debt element of the loan, without the conversion option, recorded at its amortized cost, using a discount rate of 27%.

(Expressed in United States Dollars)

15. CONVERTIBLE DEBENTURES (continued)

In connection with the Debenture offering, the Company issued an aggregate of 1,059 compensation warrants ("Compensation Warrants"). The Company also issued 62 finders warrants ("Finders Warrants"). Each Compensation Warrant and Finders Warrant entitles the holder to purchase one Debenture Unit of the Company at an exercise price of CAD$1,000 until May 16, 2022. In addition, the Company paid $1,049,666 for associated legal fees, financing fees, commissions and finders fees from the proceeds of the convertible debentures.

	September 30, 2019 ($)
Beginning balance	-
Issue of convertible debentures, net	8,616,824
Conversion to common shares	(15,221)
Accretion	459,737
Ending balance	9,061,340

16. SUBSCRIPTION RECEIPTS

On November 26 and December 5, 2018, Blacklist Finco issued 14,280,146 subscription receipts shares for gross proceeds of $5,492,364 (CAD $7,140,073). The subscription receipts were held in escrow until the closing of the Transaction; whereby, the subscription receipts were exchanged for post-consolidated common shares of Zara on a one-to-one basis. As at September 30, 2019, the funds were held in trust with the Company's transfer agent.

In connection with the subscription receipts, Blacklist Finco paid $210,229 (CAD $276,290) and issued 552,580 financing fee warrants as financing fees (See Note 17).

17. SHARE CAPITAL

Authorized Share Capital

The Company's authorized share capital consists of:

- An unlimited number of voting common shares, with no par value
- An unlimited number of series A non-voting preferred shares
- An unlimited number of series B non-voting preferred shares
- An unlimited number of series C non-voting preferred shares

Authorized Share Capital (continued)

The series A and B preferred shares may be converted into common shares at the option of the Company. The series C preferred shares may be converted into common shares at the option of the holders. Each series of preferred shares are convertible into such number of common shares equal to the quotient of the paid-up capital of the preferred shares divided by the market price of the common shares on the date of conversion. Each series of preferred shares are subject to cumulative dividends at the rate of 5% per annum, which is payable in common shares of the Company based upon the prevailing market price of the common shares.

Zara did not have any Series A or B preferred shares outstanding at the time of the Transaction.

17. SHARE CAPITAL (continued)

Issued Share Capital

On January 21, 2019, all 83,333 Preferred C shares of Zara were converted into 1,428,566 pre-consolidated Zara common shares.

On March 22, 2019, prior to the completion of the Transaction, Zara consolidated its issued and outstanding share capital at a ratio of 1 new share for 35.9389 old shares. Prior to the completion of the Transaction, Zara had 332,605 post-consolidated common shares outstanding, and the Zara shares issued in connection with the Transaction were on post-consolidation basis.

On March 22, 2019, pursuant to the Share Exchange Agreement (see Note 5), 54,251,241 post-consolidated Zara common shares were issued to Blacklist shareholders and 14,280,146 post-consolidated Zara common shares were issued to Blacklist subscription receipts holders on completion of the RTO.

On March 22, 2019, pursuant to convertible secured debenture agreements (see Note12), the Company issued an aggregate of 32,363,816 post-consolidated Zara common shares to convertible debenture holders for conversion of convertible debentures. At the same time, the Company issued 174,000 post-consolidated Zara common shares to settle the cash financing fee of $66,198 (CAD $87,000) in relation to the convertible debentures convertible at CAD $0.50.

On March 22, 2019, the Company issued 1,075,818 post-consolidated Zara common shares for settlement of debt. The fair value of the debt was $409,294.

On March 22, 2019, the Company issued 273,089 post-consolidated Zara common shares as partial settlement for finders' fee in connection to the Blacklist subscription receipts instead of paying the full $210,229 finders' fees in cash (see Note 13). The balance of $106,100 finders' fees was paid in cash.

On March 22, 2019, the Company issued an aggregate of 610,000 post-consolidated Zara common shares as finders fees for convertible debentures in Note 16. The fair value of the services was $198,899.

In connection with the closing of the RTO, the Company issued an aggregate of 5,250,000 post-consolidated Zara common shares as finders' fees. The fair value of the services was $1,997,363.

In April and May 2019, the Company issued 6,594,900 common shares to the holders of the Company's warrants as the holders opted to exercise their warrants, for gross proceeds of $1,153,475 (CAD$1,541,200).

On May 9, 2019, the Company issued 1,154,746 common shares to Imbue LLC to acquire its patent for a fair value of $650,000 (see Note 11).

On May 31, 2019, the Company issued 2,814,180 common shares to shareholders of VVG as part of its acquisition of VVG (see Note 6).

On June 14, 2019, the Company issued 32,171,480 common shares to shareholders of VVC as part of its acquisition of VVG (also see Note 6).

On June 24, 2019, the Company issued 140,582 common shares to a consultant as payment for services rendered. The fair value of the services was $47,947.

On August 8, 2019, the Company issued 1,270,224 common shares as finders fees for VVG acquisition in Note 6. The fair value of the services was $633,627.

(Expressed in United States Dollars)

17. SHARE CAPITAL (continued)

Issued Share Capital (continued)

On August 13, 2019, the Company issued 1,267,500 common shares to the holders of the Company's warrants as the holders opted to exercise their warrants, for gross proceeds of $47,881 (CAD$63,375).

On August 15, 2019, the Company issued 660,819 common shares for settlement of debt. The fair value of the debt was $327,955 (CAD$437,000).

On September 19, 2019, the Company issued 9,635,150 common shares to shareholders of NE for its acquisition of NE (see Note 6).

Stock Options

The Company has a stock option plan under which the Board of Directors may grant options to acquire common shares of the Company to qualified directors, officers, employees, and other service providers. The stock options vest according to the provisions of the individual option agreements approved by the directors' resolutions and have a maximum life of 10 years. The plan allows for the issuance up to 10% of the number of issued and outstanding common shares of the Company at any time on a non-dilute basis.

On April 12, 2019, the Company granted 5,700,000 stock options to directors, employees and consultants. The options may be exercised within 5 years from the date of the grant at a price of CAD $0.65 and having vesting periods ranging from 0 to 9 months.

On August 19, 2019, the Company granted 2,518,000 stock options to directors, employees and consultants. The options may be exercised within 5 years from the date of the grant at a price of CAD $0.20 and having vesting periods ranging from 0 to 9 months.

The fair value of the stock options at the date of grant was estimated using the Black-Scholes Option Pricing Model, assuming a risk-free interest rate of 1.66% per annum, an expected life of 5 years, an expected volatility of 71%, and no expected dividends.

		Weighted Average Exercise Price (CAD)	Number of shares issued or issuable on exercise		Amount (USD)
Balance - December 31, 2018	$	-	-	$	-
Stock options granted		0.51	8,218,000		-
Stock options vested		0.51	-		1,564,735
Balance - September 30, 2019	$	0.51	8,218,000	$	1,564,735

Warrants

In connection with the subscription receipts in November and December 2018, Blacklist Finco paid $210,229 (CAD $276,290) and issued 548,780 financing fee warrants as financing fees. Each warrant is exercisable for CAD $0.50 per share for a period of 18 months from the date of closing of the Transaction.

Using the Black-Scholes Option Pricing Model, management estimated the fair value of the financing fee warrants being $89,056, which was recorded in equity, with the following assumptions: risk-free interest rate of 1.46%, expected life of 1.5 years, expected volatility of 92.31% and no expected dividend.

17. SHARE CAPITAL (continued)

Warrants (continued)

Along with the subscription receipts in November and December 2018, Blacklist Finco also issued 174,000 financing fee warrants to finders of the debentures convertible at CAD $0.50. Each warrant is exercisable for CAD $0.50 per post-dated Zara common share for a period of 18 months from the closing date of the Transaction.

The fair value of the warrants, $28,237 (CAD $37,868), had been recorded in equity. The fair value of warrants was estimated using the Black-Scholes Option Pricing Model assuming a risk-free interest rate of 1.46%, an expected life of 1.5 years, expected volatility of 92.31% and no expected dividend.

On February 28, 2019, Blacklist issued 2,000,000 financing fee warrants in connection to a loan borrowed from an unrelated party (see Note 10). Each warrant is exercisable at CAD $0.55 per share for a period of one year from the date of issuance.

The fair value of the warrants, $246,294 (CAD $330,305), had been recorded in equity. The fair value of warrants was estimated using the Black-Scholes Option Pricing Model assuming a risk-free interest rate of 1.46%, an expected life of 1 year, an expected volatility of 92.31% and no expected dividend.

On March 22, 2019, the Company issued 6,000,000 performance warrants to an unrelated party. The conditions for vesting are as follow:

- 3,000,000 warrants will vest and become fully exercisable upon the Company issuing common shares with an aggregate value of CAD $5,000,000 in connection with a financing (other than the planned CAD $5,000,000 outlined in Section 1.6 of LOI dated July 6, 2018 ("LOI Financing") where the holder acted as finder, underwriter, broker or in another similar capacity (the "Initial Financing"), within one calendar year of the closing of the transactions outlined in the Share Exchange Agreement dated February 26, 2019. These warrants shall be exercisable for 60 days following the closing date of the financing and shall only be exercisable during the exercisable period.

- 3,000,000 warrants will vest and become fully exercisable upon the Company issuing common shares with an aggregate value of CAD $10,000,000 in connection with one or more financings (including funds raised in Initial Financing, but excluding any funds raised in the LOI Financing) in each case where the holder acted as a finder, underwriter, broker or in another similar capacity, within one calendar year of the closing of the transactions outlined the Share Exchange Agreement. These warrants shall be exercisable for 60 days following the closing date of the financing and shall only be exercisable during the exercisable period.

Each performance warrant is exercisable at CAD $0.05 per share. As at June 30, 2019, the first and second performance conditions were achieved. The fair value of the performance warrants, $2,019,380, had been recorded in equity. The fair value of warrants was estimated using the Black-Scholes Option Pricing Model assuming a risk-free interest rate of 1.46%, an expected life of 1.28 years, an expected volatility of 87.48% and no expected dividend.

Also on March 22, 2019, the Company issued 11,000,000 performance warrants to directors, officers and employees of the Company. The conditions for vesting are as follow:

- 3,977,280 warrants will vest and become fully exercisable upon the Company receiving at least eight conditional use permits that allowed the Company, or an affiliate of the Company, to obtain a recreational cannabis license in the State of California by February 26, 2020. These warrants shall be exercisable for 60 days following the day the Company, or an affiliate of the Company, receives the eighth conditional use permit.

17. SHARE CAPITAL (continued)

Warrants (continued)

- 3,975,120 warrants will vest and become fully exercisable upon the Company having achieved total gross revenue of at least $20,000,000 during the fiscal year ended December 31, 2019. These warrants shall be exercisable for 60 days following the day the Company publicly filed its annual consolidated financial statements.

- 3,047,600 warrants will vest and become fully exercisable upon the Company having achieved total gross revenue of at least $80,000,000 during the fiscal year ended December 31, 2020. These warrants shall be exercisable for 60 days following the day the Company publicly filed its annual consolidated financial statements.

Each performance warrant is exercisable at CAD $0.05 per share. As at June 30, 2019, all three performance conditions were achieved, and the fair value of the performance warrants, $3,732,273, had been recorded inequity. The fair value of warrants was estimated using the Black-Scholes Option Pricing Model assuming a risk-free interest rate of 1.46%, an expected life of 2.28 years, an expected volatility of 91.78% and no expected dividend.

On May 16, 2019, the Company issued 26,338,747 warrants as part of the Debenture Units issued (see Note 16). Each warrant is exercisable for CAD $0.90 per share and expires on May 16, 2022.

On May 16, 2019, the Company issued 1,411,647 agents compensation warrants (“Compensation Warrants”) as payment for services to agents during the convertible debenture offering. Each Compensation Warrant entitles the holder to purchase one common share of the Company at an exercise price of $0.90 per share until May 16, 2022.

Also on May 16, 2019, the Company issued 82,646 finders warrants to eligible finders during the convertible debenture offerings. Each finders warrant entitles the holder to purchase one common share of the Company at an exercise price of $0.90 per share until May 16, 2022.

The fair value of the agents compensation warrants and finders warrants, $208,684, had been recorded in equity. The fair value of these warrants was estimated using the Black-Scholes Option Pricing Model assuming a risk-free interest rate of 1.57%, an expected life of 3 years, expected volatility of 91% and no expected dividend.

On May 24, 2019, the Company issued 2,600,000 financing fee warrants to an unrelated party as financing fees. Each warrant is exercisable for CAD$0.55 per share for a period of 12 months from issuance date.

The fair value of these financing fee warrants, $201,404, had been recorded in equity. The fair value of these warrants was estimated using the Black-Scholes Option Pricing Model assuming a risk-free interest rate of 1.57%, an expected life of 1 year, expected volatility of 90% and no expected dividend.

(Expressed in United States Dollars)

17. SHARE CAPITAL (continued)

Warrants (continued)

Details regarding warrants issued and outstanding are summarized as follows:

		Weighted average exercise price (CAD)	Number of shares issued or issuable on exercise
Balance – December 31, 2018	$	-	-
Issuance of warrants on convertible debentures (Note 15)		0.55	2,000,000
Issuance of warrants on convertible debentures (Note 15)		0.50	174,000
Issuance of warrants on subscription receipts (Note 16)		0.50	548,780
Issuance of performance warrants to finders		0.05	6,000,000
Issuance of performance warrants to employees		0.05	11,000,000
Issuance of warrants on convertible debentures (Note 15)		0.90	26,338,747
Issuance of compensation warrants for convertible debentures		0.90	1,411,647
Issuance of finders warrants for convertible debentures		0.90	82,646
Issuance of financing fee warrants		0.55	2,600,000
Exercise of warrants			(7,862,400)
Balance – September 30, 2019	$	0.64	42,293,420

The expiry dates of warrants are as follows:

Grant Date	Expiry Date		Weighted average exercise price (CAD)	Number of warrants issued
March 22, 2019	June 30, 2020		0.05	607,500
March 22, 2019	September 22, 2020		0.50	252,880
March 22, 2019	June 30, 2021		0.05	11,000,000
May 16, 2019	May 16, 2022		0.90	27,833,040
May 24, 2019	May 24, 2020		0.55	2,600,000
		$	0.64	42,293,420

18. 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.

18. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

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's exposure to currency risk is limited as the majority of its sales and expenditures are denominated in the same currency as its functional currency.

Interest Rate Risk

Interest rate risk if 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 September 30, 2019 and December 31, 2018, 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.

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, 2018.

19. 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, 2018.

20. SUBSEQUENT EVENTS

(a) On November 25, 2019, the Company entered into a secured promissory note for a loan of up to $1,000,000, maturing on November 22, 2020; whereby the Lenders have made an initial advancement of $400,000 to the Company. Significant terms of the Loan include a 12% interest rate and granting of a security interest in all of the Company's assets and repayment in 12 months.

(b) On November 8, 2019 the Company received from Vegas Valley Growers North ("VVG") a letter purporting to terminate the Membership Interests Purchase Agreement previously entered into between VVG and Company. The letter purports that the Company has breached the Contract and therefore VVG is entitled to terminate such. The Company and VVG are currently in negotiations to resolve this matter amicably.