

**IONIC BRANDS CORP.  
(FORMERLY ZARA RESOURCES INC.)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**(EXPRESSED IN UNITED STATES DOLLARS)**



DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Ionic Brands Corp. (formerly Zara Resources Inc.)

### Opinion

We have audited the consolidated financial statements of Ionic Brands Corp. (formerly Zara Resources Inc.) (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which describes events or conditions that indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Other Information

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Steven Reichert.

**DMCL**

**DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS**

Vancouver, BC

September 30, 2020



An independent firm  
associated with Moore  
Global Network Limited

**IONIC BRANDS CORP. (FORMERLY ZARA RESOURCES INC.)**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
*(Expressed in United States Dollars)*

	Notes	December 31, 2019	December 31, 2018
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash		\$ 704,897	\$ 99,772
Trade and other receivables	5	3,252,511	5,549,517
Prepaid expenses and deposits	6	250,491	714,607
Inventory	7	224,651	-
Due from related parties	13	341,564	-
		4,774,114	6,363,896
<b>Non-Current Assets</b>			
Property and equipment	8	634,437	381,111
Patents, trademarks and brand	10	1,480,348	-
Right-of-Use Asset	9	958,428	-
<b>TOTAL ASSETS</b>		\$ 7,847,327	\$ 6,745,007
<b>LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	11	\$ 2,679,296	\$ 1,628,671
Loans payable	12	1,484,236	761,113
Convertible debentures	14	-	12,119,940
Current portion of lease liability	9	434,096	-
Current portion of vehicle loans	17	26,606	25,496
Subscription receipts	15	-	5,492,364
		4,624,234	20,027,584
<b>Non-Current Liabilities</b>			
Convertible debentures	14	11,973,871	-
Lease liability	9	286,137	-
Vehicle loans	17	81,139	87,773
<b>TOTAL LIABILITIES</b>		16,965,381	20,115,357
<b>SHAREHOLDERS' DEFICIENCY</b>			
Share capital	16	40,909,598	1,465,157
Reserves	16	7,415,636	-
Other comprehensive income		(332,866)	-
Accumulated deficit		(57,110,422)	(14,835,507)
<b>TOTAL SHAREHOLDERS' DEFICIENCY</b>		(9,118,054)	(13,370,350)
<b>TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>		\$ 7,847,327	\$ 6,745,007
Nature and continuance of operations	1		
Commitments	17		
Subsequent events	21		

Approved and authorized for issue by the Board of Directors on September 30, 2020

\_\_\_\_\_  
"John Gorst"  
Director

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"Christian Vara"  
Director

**IONIC BRANDS CORP. (FORMERLY ZARA RESOURCES INC.)**  
**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**  
*(Expressed in United States Dollars)*

	Notes	December 31, 2019	December 31, 2018
<b>REVENUE</b>			
Product sales	13	\$ 5,135,007	\$ 1,404,320
Equipment rental income	13	840,588	157,132
Royalty and service income	13	4,311,852	261,230
		10,287,447	1,822,682
<b>COST OF GOODS SOLD</b>		<b>(8,679,142)</b>	<b>(2,287,825)</b>
<b>GROSS PROFIT</b>		<b>1,608,305</b>	<b>(465,143)</b>
<b>OPERATING EXPENSES</b>			
Accretion	14	1,077,758	-
Advertising and promotion		491,400	495,051
Bad debts	5, 13	4,079,014	1,216,079
Depreciation and amortization	8, 9, 10	495,537	159,253
Financing fees		514,201	-
Interest and finance charges	12, 14	1,505,936	128,238
Listing expenses	3	4,626,778	-
Marketing and investor relations		1,371,465	-
Office and administration		922,324	429,354
Professional fees		1,996,431	1,512,664
Reorganization expenses		1,496,332	-
Rent expense	13	124,163	60,854
Research and development		458,517	16,732
Salaries and wages	13	3,713,813	1,296,993
Share-based payments	16	2,194,468	-
Transfer agent and regulatory fees		76,912	-
Travel		557,212	162,832
		25,702,261	5,478,050
<b>OTHER ITEMS</b>			
Gain/(loss) from asset disposal	8	(63,286)	5,612
Impairment of goodwill and licenses	10	(4,243,307)	-
Loss on acquisitions	4	(9,651,904)	-
Gain on settlement of debts	16	260,991	(91,000)
Loss from revaluation of convertible debentures	14	(4,728,285)	(8,266,749)
Foreign exchange loss		17,113	-
		(18,408,678)	(8,352,137)
<b>NET LOSS BEFORE INCOME TAXES</b>		<b>(42,502,634)</b>	<b>(14,295,330)</b>
<b>INCOME TAXES</b>			
Deferred income tax recovery	18	227,719	-
<b>NET LOSS</b>		<b>(42,274,915)</b>	<b>(14,295,330)</b>
<b>OTHER COMPREHENSIVE LOSS</b>			
Unrealized foreign exchange loss on Translation of foreign operations		(332,866)	-
<b>COMPREHENSIVE LOSS</b>		<b>\$ (42,607,781)</b>	<b>\$ (14,295,330)</b>
<b>LOSS PER SHARE – BASIC AND DILUTED</b>			
		\$ (0.34)	\$ (0.28)
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – BASIC AND DILUTED</b>			
		124,897,942	51,002,696

The accompanying notes are integral to these financial statements.

**IONIC BRANDS CORP. (FORMERLY ZARA RESOURCES INC.)**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIENCY**  
(Expressed in United States Dollars, except number of shares)

	Common Shares		Reserves	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
	Number of Shares	Amount				
Balance at December 31, 2017	48,730,502	\$ 130,976	\$ -	\$ -	\$ (540,177)	\$ (409,201)
Shares issued for services rendered	2,774,242	235,581	-	-	-	235,581
Shares issued for settlement of debt	2,746,497	1,098,600	-	-	-	1,098,600
Net loss for the year					(14,295,330)	(14,295,330)
Balance at December 31, 2018	54,251,241	1,465,157	-	-	(14,835,507)	(13,370,350)
Shares issued for:						
Conversion of convertible debentures	32,363,816	16,652,251	-	-	-	16,652,251
Settlement of debt	1,877,218	517,038	-	-	-	517,038
Conversion of subscription receipts	14,280,146	5,324,042	103,566	-	-	5,427,609
Finders' fee shares	7,403,924	2,409,697	32,837	-	-	2,442,534
Exercise of warrants	7,862,400	3,415,197	(2,218,638)	-	-	1,196,558
Patent acquisition	1,154,746	488,174	-	-	-	488,174
Vegas Valley Growers acquisition	32,509,156	8,648,673	-	-	-	8,648,673
Natural Extractions acquisition	9,635,150	2,609,505	1,036,409	-	-	3,645,914
Recapitalization of Zara	331,995	123,777	-	-	-	123,777
Issuance of financing fee warrants	-	-	755,009	-	-	755,009
Issuance of performance warrants	-	-	2,026,615	-	-	2,026,615
Issuance of convertible debentures	-	-	3,810,273	-	-	3,810,273
Conversion of new convertible debentures	79,999	47,393	(12,201)	-	-	35,192
Issuance of stock options	-	-	1,881,766	-	-	1,881,766
Share issuance costs	-	(791,306)	-	-	-	(791,306)
Currency translation adjustments	-	-	-	(332,866)	-	(332,866)
Net loss for the year	-	-	-	-	(42,274,915)	(42,274,915)
Balance at December 31, 2019	161,749,791	\$ 40,909,598	\$ 7,415,636	\$ (332,866)	\$ (57,110,422)	\$ (9,118,054)

The accompanying notes are integral to these financial statements.

**IONIC BRANDS CORP. (FORMERLY ZARA RESOURCES INC.)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**  
(Expressed in United States Dollars)

	December 31, 2019	December 31, 2018
<b>Cash Flows Used in Operating Activities</b>		
Net loss for the year	\$ (42,502,634)	\$ (14,295,330)
Adjustments for items not affecting cash:		
Accretion	1,077,758	-
Bad debt	4,079,014	1,216,079
Depreciation and amortization	702,939	159,253
Financing fees	514,201	-
(Gain)/loss on disposal of property and equipment	63,286	(5,612)
Interest and finance charges	539,047	98,764
Impairment of goodwill and licenses	4,243,307	-
Listing expenses	4,626,778	-
Loss on acquisitions	9,376,945	-
(Gain) Loss on settlement of debts	(225,521)	91,000
Loss on valuation of convertible debentures	4,728,285	8,266,749
Share-based payments	2,194,468	-
Shares issued for services rendered	375,902	235,581
	(10,206,225)	(4,233,516)
Changes in non-cash working capital:		
Trade and other receivables	(3,065,684)	(672,422)
Accounts payables and accrued liabilities	809,390	1,875,149
Prepaid expenses and deposits	464,116	(714,607)
Inventory	(63,898)	-
Due from related parties	(248,853)	-
	(12,311,154)	(3,745,396)
<b>Cash Flows Used in Investing Activities</b>		
Purchase of property and equipment	(380,611)	(74,757)
Purchase of intangible assets	(357,258)	-
Cash used in business acquisitions, net of cash acquired	(846,826)	-
	(1,584,695)	(74,757)
<b>Cash Flows From Financing Activities</b>		
Proceeds from convertible debentures, net	13,653,063	3,853,191
Proceeds from loans payable	6,997,316	537,573
Share issuance costs	(111,860)	-
Exercise of warrants	1,153,475	-
Principal elements of lease payments	(451,328)	-
Repayment of loans payable	(6,813,240)	(436,895)
Proceeds from of vehicle loans	68,499	-
Repayment of vehicle loans	(38,554)	(47,562)
	14,457,371	3,906,307
Effect of exchange rate changes on cash	43,603	-
Changes in cash during the year	561,522	86,154
Cash, beginning of year	99,772	13,618
Cash, end of year	\$ 704,897	\$ 99,772

The accompanying notes are integral to these financial statements.

**IONIC BRANDS CORP. (FORMERLY ZARA RESOURCES INC.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECMEBER 31, 2019 AND 2018**  
(Expressed in United States Dollars)

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**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 and Continuation and is now a company governed under the British Columbia 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.), intellectual property licensing (“Licensed IP”) and 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., 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 acquirer for accounting purposes, its assets and liabilities and operations since incorporation on February 26, 2014 are included in the consolidated financial statements at their historical carrying value.

The Company’s results of operations are included from the closing date, March 22, 2019 and onwards. Please refer to the Reverse Acquisition (Note 3) for more details.

**Going Concern**

There consolidated 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. The Company incurred a net loss of \$42,274,915, has working capital of \$149,880 and an accumulated deficit of \$57,110,422. The Company 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 consolidated 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.

**COVID-19**

The Company’s operations could be significantly adversely affected by the effects of a widespread global outbreak of a contagious disease, including the recent outbreak of respiratory illness caused by Novel Coronavirus, COVID-19. The Company cannot accurately predict the impact COVID-19 will have on its operations and the ability of others to meet their obligations with the Company, including uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected countries. In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and the financial markets of many countries, resulting in an economic downturn that could further affect the Company’s operations and ability to finance its operations.



**IONIC BRANDS CORP. (FORMERLY ZARA RESOURCES INC.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECMEBER 31, 2019 AND 2018**  
(Expressed in United States Dollars)

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**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION**

**Statement of Compliance**

These consolidated 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 consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Certain line items on the statements of loss and comprehensive loss for the year ended December 31, 2018 have been reclassified according to the nature of the transaction.

These consolidated financial statements were authorized for issue by the Board of Directors on September 30, 2020.

**Basis of Preparation**

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

These consolidated 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 the United States dollar. The functional currency of the Canadian entities is the Canadian dollar.

**Basis of Consolidation**

These consolidated financial statements include the accounts of the Company and its wholly owned and 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.

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

Subsidiary	Ownership	Location
Zara Resources Inc.	100%	Canada
Blacklist Finco Inc. (“Blacklist Finco”)	100%	Canada
Blacklist Holdings OR Inc. (“Blacklist Oregon”)	100%	USA
Blacklist Brands CA Inc. (“Blacklist California”)	100%	USA
Natural Extractions, Inc. (“NE”)	100%	USA
Vegas Valley Capital Corp. (“VVC”)	100%	USA

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

**Significant Estimates and Assumptions**

The preparation of the consolidated 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 consolidated 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.

## **2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (Cont'd)**

### **Significant Estimates and Assumptions (Cont'd)**

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 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 receivable 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, 2019, the Company recorded a bad debt expense of \$4,079,014 (2018 - \$1,216,079) 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 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 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.

## **2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (Cont'd)**

### **Significant Judgments**

The preparation of consolidated 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 consolidated 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.

### **Financial Instruments**

#### ***Recognition, Classification and Measurement***

Financial assets are classified and measured based on the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. IFRS 9 contains three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit and loss ("FVTPL"). Financial assets are recognized in the statements of financial position if the Company has a contractual right to receive cash or other financial assets from another entity. Financial assets are derecognized when the rights to receive cash flows from the asset have expired or were transferred and the Company has transferred substantially all risks and rewards of ownership.

All financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instruments. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial instruments are not classified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The Company has classified its trade accounts receivable, accounts payable and other liabilities, due to related parties, loans payable, convertible debt, lease liabilities, and long-term debt as financial assets and financial liabilities measured at amortized cost. Such assets and liabilities are recognized initially at fair value inclusive of any directly attributable transaction costs and subsequently carried at amortized cost using the effective interest method, less any impairment losses. The Company has classified its cash as a financial asset measured at fair value through profit and loss.

Financial assets and financial liabilities are offset and the net amount presented in the statements of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

## **2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (Cont'd)**

### **Impairment of Financial Assets**

The Company recognizes loss allowances for expected credit losses on financial assets measured at amortized cost. Loss allowances for accounts receivables are always measured at an amount equal to lifetime expected credit losses if the amount is not considered fully recoverable. A financial asset carried at amortized cost is considered credit-impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Individually significant financial assets are tested for credit-impairment on an individual basis. The remaining financial assets are assessed collectively.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

In assessing collective impairment, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Losses are recognized in the statements of comprehensive loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statements of comprehensive loss.

### **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 the 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.

#### ***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 the 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.

**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (Cont'd)**

**Business Combinations**

Acquisitions of business are accounted for using the acquisition method. The consideration of each business combination is measured, at the date of the exchange, as the aggregate of the fair value of assets given, liabilities incurred or assumed and equity instruments issued by the Company to the former owners of the acquiree in exchange for control of the acquire. Acquisition-related costs incurred for the business combination are expensed. The acquiree's identifiable assets, liabilities and contingent liabilities are recognized at their fair value at the acquisition date.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the consideration of the acquisition over the Company's interest in the fair value of the net identifiable assets, liabilities and contingent liabilities recognized. If the Company's interest in the fair value of the acquiree's net identifiable assets, liabilities and contingent liabilities exceeds the cost of the acquisition, the excess is recognized in profit or loss immediately. Goodwill may also arise as a result of the requirement under IFRS to record a deferred tax liability on the excess of the fair value of the acquired assets over their correspondence tax bases, with the corresponding offset recorded as goodwill.

**Right-of-Use Assets and Lease Liability**

The Company recognizes a right-of-use ("ROU") asset and a lease liability at the lease commencement date. The ROU asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made on or before the commencement date, plus any initial direct costs incurred, less any lease incentives received. The ROU asset is subsequently depreciated to the earlier of the end of the useful life of the ROU asset or the lease term using the straight-line method. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. The ROU asset may be adjusted for certain remeasurements of the lease liability and impairment losses, if any.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the amount expected to be payable under a residual value guarantee, or if there is a change in the Company's assessment of whether it will exercise a purchase, extension or termination option.

Leases that have a term of less than 12 months with an underlying asset of low-value are recognized as an expense in the consolidated statement of net income and comprehensive (loss) income.

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**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (Cont'd)**

**Property and Equipment**

Property 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.

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 and equipment are as follows:

Class of property and equipment	Amortization rate
Motor vehicles	5 years
Computer equipment	3 years
Lab equipment	5 years
Factory equipment	7 years
Furniture and fixtures	7 years
Leasehold improvements	Term of lease

**Patents, Trademarks and Brand**

Patents, trademarks and brand are intangible assets the Company acquired relating to the processing and production of cannabis products.

Intangible assets with finite useful lives are measured at cost less accumulated amortization and impairment losses. Intangible assets are amortized on a straight-line basis over the estimated useful life being the exclusively periods. Patents are amortized over 16 years; and Brand is amortized over 3 years.

**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.

**Foreign Currency Translation**

The functional currency of each subsidiary of the Company is the currency of the primary economic environment in which the entity operates. The functional currency of the Canadian entities is the Canadian dollar ("CAD"). The functional currency of the US entities is the US dollar.

Transactions in currencies other than the functional currency of an entity are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary assets and liabilities are translated using the period-end foreign exchange rate. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities stated at fair value are translated using the historical rates on the date that the fair value was determined. All gains and losses on translation of these foreign currency transactions are included in profit or loss.

## **2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (Cont'd)**

### **Foreign Currency Translation (Cont'd)**

Where applicable, the functional currency of an entity is translated into the presentation currency using the period-end rates for assets and liabilities while the operations and cash flows are translated using average rates of exchange. Exchange adjustments arising when net assets and profit or loss are translated into the presentation currency are taken into a separate component of equity and reported in other comprehensive income or loss.

### **Share-Based Payments**

The Company may grant stock options to directors, officers, employees and/or consultants. The fair value of stock options is measured on the grant date, using the Black-Scholes option pricing model and is recognized over the vesting period of the related options. Consideration paid for the shares on the exercise of stock options is credited to share capital. Share-based payments to non-employees are measured at the fair value of the goods or services received for the fair value of the equity instruments issued. If it is determined that fair value of the goods or services cannot be reliably measured and are recorded on the date the goods or services are received. The corresponding amount is recorded to the share-based payment reserve.

### **Reserves**

Reserves record items recognized as share-based compensation until such time that the options or compensatory warrants are exercised, at which time the corresponding amount is reallocated to share capital. Amounts recorded for forfeited or expired options or warrants are transferred to deficit.

The fair value at grant date is determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the options or compensatory warrants, the share price at grant date and expected volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option or warrant.

### **Revenue**

The Company's accounting policy for revenue recognition is as follows: (i) identify the contract with the customer; (ii) identify the performance obligation(s) in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligation(s); and (v) recognize revenue when (or as) performance obligation(s) are satisfied.

Revenue and royalty from the sale of products is recognized at the point in time when control over the goods has been transferred to the customer. The Company transfers control and satisfies its performance obligation upon delivery and acceptance by the customer. Revenue from management services fees are recognized over the term of the arrangement as service are provided. Rental income from operating leases is recognized on a straight-line basis over the term of the arrangement. Revenue is presented net of discounts and sales and other related taxes.

### **Cost of Goods and Services 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 equipment amortization, product shrinkage, excess or obsolete inventory, or lower of cost and net realizable value adjustments are required.

## **2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (Cont'd)**

### **Convertible Debentures**

Convertible debentures are financial instruments which are accounted for separately dependent on the nature of their components: a financial liability and an equity instrument. The identification of such components embedded within a convertible debenture requires significant judgment given that it is based on the interpretation of the substance of the contractual arrangement. Where the conversion option has a fixed conversion rate, the financial liability, which represents the obligation to pay coupon interest on the convertible debentures in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance.

### **Recent Accounting Pronouncements**

#### **Adoption of IFRS 16 "Leases"**

Effective January 1, 2019, the Company adopted IFRS 16 which supersedes IAS 17 Leases ("IAS 17"). The Company has applied the new standard using the modified retrospective approach with no restatement of comparative periods. There were no adjustments to retained earnings as a result of adoption.

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to use an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for leases with a lease term of 12 months or less and leases of low value assets. For these leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments and expected payments at the end of the lease, discounted using the rate implicit in the lease. If the rate implicit in the lease cannot be readily determined, the Company uses its incremental borrowing rate. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability using the effective interest method and by reducing the carrying amount to reflect the lease payments made.

The right-of-use asset is measured at a cost that includes the lease liability, adjusted for any initial direct costs; prepaid lease payments, estimated costs to dismantle, remove or restore, and lease incentives received. The right-of-use asset is subsequently measured at cost less accumulated depreciation and impairment losses.

The Company re-measures the lease liability and makes a corresponding adjustment to the related right-of-use asset whenever the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

The Company has elected not to reassess whether a contract is, or contains a lease at the date of the initial application. Instead, for contracts entered into before the transition date the Company relied on the previous assessment made under IAS 17 and IFRIC 4 Determining Whether an Arrangement Contains a Lease. The definition of a lease under IFRS 16 was applied only to contracts entered into or modified on or after January 1, 2019.



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**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (Cont'd)**

**Recent Accounting Pronouncements (Cont'd)**

**Adoption of IFRS 16 "Leases" (Cont'd)**

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Company applied the following practical expedients when adopting IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on previous assessments on whether leases are onerous;
- Applied the exemption not to recognize right-of-use assets and liabilities for leases where the lease term ends within 12 months of the date of initial application;
- Excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight to determine the lease term where contracts contain options to extend or terminate the lease.

Under IFRS 16, the Company is required to assess the classification of a sublease with reference to the right-of-use asset, not the underlying asset. The Company does not have any subleases.

On transition to IFRS 16, the Company recognized lease assets and liabilities. The impact on transition is summarized below:

	January 1, 2019
Lease liabilities before discounting	\$ 439,400
Discounted using the incremental borrowing rate at January 1, 2019	(68,212)
Operating lease liability recognized at January 1, 2019	\$ 371,188
<hr/>	
	January 1, 2019
Operating lease liability at January 1, 2019	\$ 371,188
Lease payments prior to January 1, 2019	-
Interest prior to January 1, 2019	-
Depreciation prior to January 1, 2019	-
Right of use lease asset at January 1, 2019	\$ 371,188

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019 at 10%.

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**3. 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 attained 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 resulted in 331,995 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.
- 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 valued at \$1,957,374
- The Company also issued 6,000,000 warrants to consultants valued at \$2,026,615
- 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 \$4,626,778 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 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:

Consideration:	
Fair value of shares issued	\$ 123,777
<b>Total consideration</b>	<b>123,777</b>
Fair value of net assets of the Company:	
Other receivables	5,395
Other payables	(524,407)
<b>Total net assets</b>	<b>(519,012)</b>
Finders’ shares issued	1,957,374
Warrants issued to consultants related to the amalgamation	2,026,615
<b>Listing expense</b>	<b>\$ 4,626,778</b>

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**4. ACQUISITION OF SUBSIDIARIES**

**Blacklist Brands CA Inc.**

On January 1, 2019, Blacklist acquired 100% of the 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 an asset acquisition as Blacklist California did not meet the definition of a business, as defined in IFRS 3, Business Combinations.

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

**Blacklist Holdings OR Inc.**

Also on January 1, 2019, Blacklist acquired 100% of the 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 an asset acquisition as Blacklist Oregon did not meet the definition of a business, as defined in IFRS 3, Business Combinations.

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 related to NE's operations. At the same time, Blacklist also entered into a letter of intent with NE shareholders whereby Blacklist shall acquire NE's assets and operations for a consideration consisting of a cash payment of \$855,000 and issuance of 6,228,201 common shares, as well as issuance of 3,114,998 share purchase warrants with an exercise price of CAD\$1.33 per share, exercisable over 3 years. The acquisition was for the Company to expand its brands, enter into the edible markets and retain penetration within the state of Washington.

In addition, the Company issued 3,406,949 common shares and 1,703,475 share purchase warrants, with exercise price of CAD\$1.33 per share and exercisable over 3 years, to the shareholders of Db3 Corporation ("Db3"), a company related to NE, for an option to acquire Db3's licenses at a fair value of \$760,033.

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. The Company acquired 100% of the outstanding shares of NE.

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**4. ACQUISITION OF SUBSIDIARIES (Cont'd)**

**Natural Extractions, Inc. (Cont'd)**

The allocation of consideration transferred is summarized as follows:

<b>Purchase Price</b>		
Cash payment	\$	855,000
9,635,150 common shares		2,609,505
4,817,575 warrants		1,036,365
<b>Total purchase price</b>	<b>\$</b>	<b>4,500,870</b>
<b>Allocation of Purchase Price</b>		
Bank indebtedness	\$	(19,139)
Receivables		52,083
Prepaid expenses		9,835
Inventory		160,753
Equipment, net		178,587
Intangible assets – NE brand		890,000
Intangible assets – Db3 option		760,033
Accounts payable & accrued liabilities		(255,028)
Other liabilities		(67,765)
Notes payables		(464,044)
Deferred income tax liability		(227,719)
Goodwill		3,483,274
<b>Net assets acquired</b>	<b>\$</b>	<b>4,500,870</b>

The purchase consideration has been allocated based on the Company's assessment of the fair value of the identifiable assets acquired and the liabilities assumed at the acquisition date.

The acquired business contributed revenues of \$1,330,146 and net loss of \$639,674 to the consolidated entity from the period from April 1, 2019 to December 31, 2019.

If the acquisition had occurred from on January 1, 2019, consolidated pro-forma revenue and loss for the year ended December 31, 2019 would have been \$1,429,366 and \$1,276,360 respectively.

Goodwill arising from the acquisition represents expected future income, growth, assembled workforce and other intangibles that do not qualify for separate recognition. None of the goodwill arising from this acquisition is expected to be deductible for tax purposes.

**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 consideration consisting 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 issuing 2,814,180 common shares at CAD\$0.5952 for a total consideration of \$8,870,000 (see Note 16). The definitive agreement included certain conditions to closing that were not 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. VVC had entered into an agreement to fund the acquisition of VVG on behalf of the Company.

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**4. ACQUISITION OF SUBSIDIARIES (Cont'd)**

**Vegas Valley Growers North, LLC (Cont'd)**

On May 6, 2019, Blacklist signed an agreement to acquire 100% outstanding shares of VVC (see Note 16) whereby Ionic is liable for all tax and other liabilities of VVG effective March 1, 2019. The Company issued 32,171,454 common shares to the owners of VVC at a fair value of \$8,532,586, and 2,814,180 common shares to the shareholders of VVG at a fair value of \$967,393.

In December 2019, the Company and VVG terminated their agreement and the Company was to receive a termination cash consideration of \$1,300,000 to be received in instalments over two months and the return of 2,476,478 shares issued to the Company's treasury for the proposed acquisition. As at December 31, 2019, the Company received \$800,000 cash and 2,476,478 shares. Subsequent to the year ended December 31, 2019, the Company received the remaining \$500,000. The Company recorded a loss on acquisition of \$8,923,622 during the year ended December 31, 2019.

**5. TRADE AND OTHER RECEIVABLES**

	December 31, 2019		December 31, 2018	
Trade receivables	\$	3,701,666	\$	660,071
GST and other receivables		1,691,178		400,001
Subscription receipts		-		5,492,364
Provision for doubtful accounts		(2,140,333)		(1,002,919)
	\$	3,252,511	\$	5,549,517

During the year ended December 31, 2019, the Company recorded a provision for doubtful accounts of \$1,137,414 (December 31, 2018 - \$781,362) for expected credit losses.

The Company applies IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The expected loss rates are passed on the payment profiles of sales over a period of 12 months before December 31, 2019 or January 1, 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect the current and forward-looking information on economic factors affecting the ability of the customers to settle the receivables.

Trade receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery included the failure to make contractual payments for a period of greater than 120 days past due.

The Company impaired \$772,880 of amounts advanced to WW Agriculture ("WWAG") in the pursuit of the acquisition of WWAG, and included in other receivables is \$907,000 from WWAG with respect to the purchase of the Dabulous brand (Note 21). \$500,000 due from VVG relating to the settlement agreement (Note 4) and a \$200,000 refundable deposit that was advanced for an asset acquisition.

During the year ended December 31, 2018, 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.

**6. PREPAID EXPENSES AND DEPOSITS**

	December 31, 2019		December 31, 2018	
Prepaid expenses	\$	199,154	\$	96,768
Deposits		51,337		617,839
	\$	250,491	\$	714,607

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**7. INVENTORY**

	December 31, 2019		December 31, 2018	
Raw materials	\$	1,009	\$	-
Work in progress		8,656		-
Finished goods		214,986		-
	\$	224,651	\$	-

During the year ended December 31, 2019, total cost of inventory sold was \$8,471,740 (2018 - \$2,287,825); the Company also recorded \$1,260,110 due to inventory obsolescence in Reorganization expense.

**8. PROPERTY AND EQUIPMENT**

	Motor Vehicles (\$)	Computer Equipment (\$)	Furniture and Fixtures (\$)	Leasehold Improvements (\$)	Lab Equipment (\$)	Total (\$)
<b>Cost:</b>						
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
Acquisition	-	12,096	11,996	3,497	161,373	188,962
Additions	68,499	115,439	71,255	11,610	112,798	379,600
Disposal	(57,057)	(357)	(1,491)	(1,713)	(54,417)	(115,034)
At December 31, 2019	194,118	168,855	130,829	150,900	515,285	1,159,985
<b>Amortization:</b>						
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 year	36,497	40,418	13,502	28,036	111,462	229,915
Eliminated on disposal	(29,715)	-	-	-	-	(29,715)
At December 31, 2019	66,201	60,960	23,781	137,090	237,516	525,548
<b>Net Book Value:</b>						
At December 31, 2018	123,257	21,135	38,790	28,452	169,477	381,111
At December 31, 2019	127,917	107,895	107,047	13,810	277,769	634,437

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 year ended December 31, 2019, Blacklist disposed of property and equipment for proceeds of \$35,470, resulting in a loss on disposition of assets of \$63,286.

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**9. RIGHT-OF-USE ASSETS AND LEASE LIABILITY**

**Right-of-Use Assets**

	(\$)
<b>Cost:</b>	
Balance at January 1, 2019, on adoption of IFRS 16	371,188
Additions	817,572
Balance at December 31, 2019	1,188,760
<b>Accumulated amortization:</b>	
Balance at January 1, 2019, on adoption of IFRS 16	-
Depreciation	(230,332)
Balance at December 31, 2019	(230,332)
<b>Net book value:</b>	
As at January 1, 2019, on adoption of IFRS 16	371,188
Balance at December 31, 2019	958,428

**Lease Liabilities**

The Company entered into an office lease and an equipment lease contract during the year ended December 31, 2019 with terms of 24 months. The leases are calculated using an incremental borrowing rate of 10% per annum. During the year ended December 31, 2018, the Company entered into an office lease with a term of 40 months.

	(\$)
Balance at January 1, 2019, on adoption of IFRS 16	371,188
Additions	667,572
Interest expense	132,801
Lease payments	(451,328)
At December 31, 2019	720,233
Current portion	434,096
Non-current portion	286,137

At December 31, 2019, the Company is committed to minimum lease payments as follows

	December 31, 2019	
Not later than one year	\$	543,762
Later than one year and not later than five years		309,596
Total minimum lease payments		853,358
Less: amounts representing finance costs		133,125
Present value of minimum lease payments	\$	720,233

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**10. PATENTS, TRADEMARKS AND GOODWILL**

	Patents (\$)	Brand (1) (\$)	Db3 Option (\$)	Goodwill (1) (\$)	Total (\$)
<b>Cost:</b>					
At December 31, 2017 and 2018	-	-	-	-	-
Additions	845,432	890,000	760,033	3,483,274	5,978,739
At December 31, 2019	845,432	890,000	760,033	3,483,274	5,978,739
<b>Amortization:</b>					
At December 31, 2017 and 2018	-	-	-	-	-
Charge for the year	32,381	222,703	-	-	255,084
Impairment	-	-	760,033	3,483,274	4,243,307
At December 31, 2019	32,381	222,703	760,033	3,483,274	4,498,391
<b>Net Book Value:</b>					
At December 31, 2018	-	-	-	-	-
At December 31, 2019	813,051	667,297	-	-	1,480,348

(1) Acquired upon acquisition of Natural Extractions (see Note 4).

During the year ended December 31, 2019, the Company acquired two patents, to be used in the Company's anticipated beverage products for \$357,258 in cash and the issuance of 1,154,746 common shares, the patents have expiry dates on August 5, 2035 and January 3, 2037.

As at December 31, 2019, the Company completed goodwill impairment testing that resulted in the recoverable amount being significantly less than the carrying value of goodwill. The Company estimated the recoverable amount of goodwill based on discounted cash flows (a five-year projection and a terminal year thereafter) and incorporated assumptions an independent market participant would apply. The key assumptions used in the calculation are: the recoverable amount relate to the future cash flows and growth projections, future weighted average cost of capital and, income tax rates. These key assumptions were based on historical data, project development data from internal sources as well as industry and market trends. The Company adjusted the discount rate for its CGU for the risks associated with achieving its forecast. A post-tax discount rate of 30% was used. As of December 31, 2019, the Company determined that goodwill is fully impaired (see Note 4). As the Company did not exercise the Db3 option, the amount was impaired.

**11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	December 31, 2019		December 31, 2018	
Trade payables	\$	1,912,971	\$	1,170,589
Accrued expenses		766,325		356,915
Amounts due to related parties		-		101,167
	\$	2,679,296	\$	1,628,671

Accounts payables and accrued liabilities comprised primarily of trade payables incurred in the normal course of business.



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**12. 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 year ended December 31, 2019, Blacklist borrowed a further \$322,996 from the lender and settled the loan and accrued interest for \$601,902. As at December 31, 2019, the balance outstanding included accrued interest was \$nil (December 31, 2018 - \$268,054). During the year ended December 31, 2019, the Company recorded interest expense of \$10,852 (December 31, 2018 - \$1,076).

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 year ended December 31, 2019, Blacklist borrowed a further \$742,743 from the lender, who resigned from his position in October 2019, and settled the loan and accrued interest for \$985,393. As at December 31, 2019, the balance outstanding including accrued interest was \$nil (December 31, 2018 - \$206,369). During the year ended December 31, 2019, the Company recorded interest expense of \$36,281 (December 31, 2018 - \$35,412).

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 December 31, 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 December 31, 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, 2019, Blacklist entered into a bridge loan agreement (the "Bridge Loan") whereby Blacklist received a loan of \$2,463,614 (CAD\$3,250,000). The Bridge Loan matured on May 15, 2019 with no interest. The Company used all Blacklist assets as collateral to secure the loan. In addition, the Company paid a financing fee of \$200,850 (CAD \$260,000), an extension fee of \$20,085 (CAD\$26,000) and issued 2,600,000 share purchase warrants to the lender. As at December 31, 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.

On February 28, 2019, Blacklist entered into another bridge loan agreement (the "Bridge Loan") 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 of \$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 16). As at December 31, 2019, the balance outstanding was \$nil and an interest expense of \$75,731 was recorded for the year ended December 31, 2019.

In May 2019, the Company entered into a loan agreement of \$29,704 (CAD\$40,000). The loan was non-interest bearing and due one year from the borrowing date. As at December 31, 2019, the balance outstanding was \$nil (December 31, 2018 - \$nil) as the Company repaid the loan from the proceeds of the convertible debentures issued in May 2019.

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**12. LOANS PAYABLE (Cont'd)**

On April 1, 2019, Blacklist assumed loans from the acquisition of Natural Extractions, Inc. ("NE"). The loans are past due and are in default of the original terms, resulting in an interest rate of 12%. As at December 31, 2019, the balance outstanding including accrued interest was \$569,706.

In May 2019, the Company entered into a loan agreement of \$37,131 (CAD\$50,000). The loan was non-interest bearing and due one year from the borrowing date. As at December 31, 2019, the balance outstanding was \$nil (December 31, 2018 - \$nil) as the Company repaid the loan from the proceeds of the convertible debentures issued in May 2019.

In May 2019, the Company entered into a loan agreement of \$37,084 (CAD\$50,000). The loan was non-interest bearing and due one year from the borrowing date. As at December 31, 2019, the balance outstanding was \$nil (December 31, 2018 - \$nil) as the Company repaid the loan from the proceeds of the convertible debentures issued in May 2019.

In November 2019, the Company entered into a loan agreement for the amount of \$500,000. The loan plus a fee of \$75,000 is to be repaid no later than November 20, 2020. As at December 31, 2019, the outstanding balance was \$500,000.

In November 2019, the Company entered into a promissory note of \$400,000. The loan carries an interest rate of 12% per annum and due on November 22, 2020. The promissory note is also secured by all or substantially all of the Company's assets. As at December 31, 2019, the balance outstanding was \$414,530 (December 31, 2018 - \$nil).

	December 31, 2019	December 31, 2018
Balance, beginning	\$ 761,113	\$ 776,258
Issued	6,997,316	537,573
Interest expense	539,047	84,177
Settlement of loans payable	-	(200,000)
Repayment of loans payable	(6,813,240)	(436,895)
Balance, ending	\$ 1,484,236	\$ 761,113

**13. 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 years ended December 31, 2019 and 2018 was as follows:

	December 31, 2019	December 31, 2018
Salaries and wages	\$ 1,414,783	\$ 820,335
Professional fees	222,094	37,500
Business development	-	116,497
Rent	39,000	63,000
	\$ 1,675,877	\$ 1,037,332

**Accounts Payable and Accrued Liabilities**

As at December 31, 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;
- \$nil (December 31, 2018 - \$3,000) owing to a director for services rendered;
- \$nil (December 31, 2018 - \$57,000) owing to a company controlled by a director for rent.
- \$142,225 (December 31, 2018 - \$nil) owing to officers for deferred compensation.

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**13. RELATED PARTY TRANSACTIONS (Cont'd)**

**Loans Payable**

As at December 31, 2019, \$nil (December 31, 2018 - \$474,423) in loans payable were owed to related parties (Note 12). During the year ended December 31, 2019, the Company recorded interest expense of \$63,427 (December 31, 2018 - \$73,540) paid to related parties.

**Accounts Receivable**

As at December 31, 2019, \$1,789,000 (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.

**Due from Related Parties**

On May 31, 2019, the Company loaned an officer \$25,000. The loan carries an interest at 3% per annum and is due and payable upon the officer's authorization to sell his shares in the Company.

During the year ended December 31, 2019, the Company loaned \$2,485,283 to a company owned by the Company's CEO. The loan carries interest at 3% per annum and is due on or before January 1, 2022. As at December 31, 2019, the balance outstanding was \$316,564 as the loan was impaired due to the uncertainty of the companies' ability to repay the entire balance.

**Transactions with Related Parties**

During the year ended December 31, 2019, the Company had product and service sales to a company jointly owned by the Company's CEO and former CFO of \$8,068,695 (December 31, 2018 - \$1,404,320).

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. As at January 1, 2019, the Company adopted IFRS 16, and recognized both an ROU asset and a lease liability for this contract (see Note 9). During the year ended December 31, 2019, the Company paid off the lease liability.

During the year ended December 31, 2019, Blacklist entered into an asset lease agreement with a company controlled by the Company's CEO and former CFO that expires on January 1, 2020. Under the agreement, Blacklist is a lessor, originally leased the equipment for monthly rental of \$33,332. Shortly after the execution of the agreement, both parties mutually filed amendments to the lease to represent additional equipment for monthly payments of \$76,750.

During the year ended December 31, 2019, the Company recognized equipment rental income of \$747,330 (December 31, 2018 - 157,132).

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-transferable, non-assignable license to reproduce, distribute, publicly display and publicly 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 year ended December 31, 2019, the Company recognized royalty income of \$363,133 (December 31, 2018 - \$261,230).

During the year ended December 31, 2019, the Company earned \$395,300 (December 31, 2018 - \$nil) in procurement fees from a company jointly controlled by the Company's CEO and former CFO.

During the year ended December 31, 2019, the Company incurred expenses of \$nil (December 31, 2018 - \$781,362) to three companies controlled by the Company's CEO. The ability of these companies to repay the amounts owing is uncertain, and therefore, all of the amounts receivable have been impaired.

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**14. 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 at CAD\$0.035 per share. Prior to debentures being converted, the conversion feature of the debentures was revalued to be \$10,257,104 and was recorded as equity of the Company.

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 at CAD\$0.25 per share. Prior to debentures being converted, the conversion feature of the debentures was revalued to be \$1,574,918 and was recorded as equity of the Company.

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 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 3,125,000 common shares at CAD\$0.40 per share. Prior to debentures being converted, the conversion feature of the debentures was revalued to be \$675,791 and was recorded as equity of the Company.

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 at 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 3,438,816 common shares at CAD\$0.50 per share. Prior to debentures being converted, the conversion feature of the debentures was revalued to be \$487,222 and was recorded as equity of the Company.

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

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**14. CONVERTIBLE DEBENTURES (Cont'd)**

Each Debenture Unit consists of:

- 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;
- 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, 2022, 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 \$3,810,273 (CAD\$5,366,060). The borrowing amount represents the debt element of the loan, without the conversion option, recorded at its amortized cost, using a discount rate of 20%.

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. The Company also incurred transaction costs of \$184,984 (CAD\$245,434).

Subsequent to the year ended December 31, 2019, the Company amended the terms of the Debenture Units:

- Increase interest rate from 8% to 10%
- Decrease the conversion price from CAD\$0.90 to CAD\$0.75 per share
- Decrease the exercise price of the warrants from CAD\$0.90 to \$0.075 per share.

	December 31, 2019		December 31, 2018	
Balance, beginning of year	\$	12,119,940	\$	-
Issue of convertible debentures, net		9,842,753		3,853,191
Change in fair value of convertible debentures (1)		4,728,285		8,266,749
Conversion to common shares		(16,687,443)		-
Accretion and interest		1,786,446		-
Foreign exchange		183,890		-
Balance, end of year	\$	11,973,871	\$	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 shares' fair value. During the year ended December 31, 2019, the convertible option was valued using the share price of the Company.

**15. 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 on a one-to-one basis.

In connection with the subscription receipts, Blacklist Finco paid \$210,229 (CAD\$276,290) and issued 548,780 financing fee warrants as financing fees (See Note 16).

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**16. SHARE CAPITAL**

**Authorized Share Capital of Zara**

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.

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.

**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 331,995 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 3), 54,251,241 common shares were issued to Blacklist shareholders and 14,280,146 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 Note 14), the Company issued an aggregate of 32,363,816 common shares to convertible debenture holders for conversion of convertible debentures. At the same time, the Company issued 174,000 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, and also issued 436,000 common shares at CAD\$0.40 for finders fees valued at \$127,417 (CAD\$174,000).

On March 22, 2019, the Company issued 1,075,818 common shares for settlement of debt. The fair value of the debt was \$401,095 (CAD\$537,909).

On March 22, 2019, the company issued 273,700 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 15). The balance of \$104,800 finders' fees was paid in cash.

In connection with the closing of the RTO, the Company issued an aggregate of 5,250,000 common shares as finders' fees. The fair value of the services was \$1,957,374 (CAD\$2,625,000).

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 \$1,153,955 (CAD\$1,541,200).

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**16. SHARE CAPITAL (Cont'd)**

**Issued Share Capital (Cont'd)**

On May 9, 2019, the Company issued 1,154,746 common shares to Imbue LLC to acquire its patent for a fair value of \$488,174 (CAD\$658,205) (see Note 10).

On May 31, 2019, the Company issued 2,814,180 common shares to shareholders of VVG as part of the acquisition of VVG (see Note 4) for a fair value of \$967,393 (CAD\$1,308,593). However, as the acquisition of VVG did not come to fruition, on December 19, 2019, the Company received 2,476,478 common shares from owners of VVG at a fair value of \$851,306 (CAD\$1,151,562) and returned these shares to treasury.

On June 11, 2019, the Company issued 8,000 common shares to holders of the Company's convertible debentures as the holders opted to convert their debentures for a face value of \$3,340 (CAD\$4,435) (see Note 14).

On June 14, 2019, the Company issued 32,171,454 common shares to shareholders of VVC as part of its acquisition of VVG (see Note 4) for a fair value of \$8,532,586 (CAD\$11,420,866).

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 (CAD\$63,262); however, the fair value of the shares was \$41,555 and the Company recognized a gain of \$6,393 (CAD\$8,435).

On July 8, 2019, the Company issued 18,666 common shares to holders of the Company's convertible debentures as the holders opted to convert their debentures for a face value of \$7,978 (CAD\$10,436) (see Note 14).

On August 8, 2019, the Company issued 1,270,224 common shares as finders fees for VVG acquisition in Note 4. The fair value of the services was \$153,305 (CAD\$203,236).

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); the fair value of the shares was \$74,389 (CAD\$99,123) and the Company recognized a gain of \$253,566 (CAD\$337,877).

On September 19, 2019, the Company issued 9,635,150 common shares to shareholders of NE for its acquisition of NE (see Note 4) at a fair value of \$2,609,505 (CAD\$3,465,552).

On December 20, 2019, the Company issued 53,333 common shares to holders of the Company's convertible debentures as the holders opted to convert their debentures for a face value of \$23,874 (CAD\$31,428) (see Note 14).

**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-diluted 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\$0.68 and having vesting periods ranging from the date of granting to nine months.

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**16. SHARE CAPITAL (Cont'd)**

**Stock Options (Cont'd)**

On August 16, 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 date of granting to nine months.

	Number of Options	Weighted Average Exercise Price (CAD)
Balance at December 31, 2018	-	\$ -
Stock options granted	8,218,000	0.53
Balance at December 31, 2019	8,218,000	\$ 0.53
Exercisable at December 31, 2019	6,163,500	\$ 0.53

As at December 31, 2019, the following stock options were outstanding and exercisable:

Number Outstanding	Number Exercisable	Exercise Price (CAD)	Expiry Date
5,700,000	4,275,000	\$ 0.68	April 12, 2024
2,518,000	1,888,500	\$ 0.20	August 16, 2024
8,218,000	6,163,500		

The options have a grant date fair value of \$1,913,825 and the Company recorded share-based compensation of \$1,881,766 during the year ended December 31, 2019 (December 31, 2018 - \$nil). All option grants were valued using the Black-Scholes Option Pricing Model with the following assumptions:

	2019	2018
Volatility	79%	-
Risk-free interest rate	1.21% - 1.59%	-
Expected life of options	5 years	-
Dividend yield	0.00%	-

**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 \$103,566 (CAD\$138,893), which was recorded in equity, with the following assumptions: risk-free interest rate of 1.54%, expected life of 1.5 years, expected volatility of 110% and no expected dividend.

Along with the subscription receipts in November and December 2018, Blacklist Finco also issued 174,000 financing fee warrants to finders of the convertible debentures of 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, \$32,837 (CAD\$44,038), is recorded in equity. The fair value of warrants was estimated using the Black-Scholes Option Pricing Model assuming a risk-free interest rate of 1.54%, an expected life of 1.5 years, expected volatility of 110% and no expected dividend.

On March 22, 2019, Blacklist issued 2,000,000 financing fee warrants in connection with a loan (see note 12). Each warrant is exercisable at CAD\$0.55 per share for a period of one year from the date of issuance.



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**16. SHARE CAPITAL (Cont'd)**

**Warrants (Cont'd)**

The fair value of the warrants, \$303,367 (CAD\$406,845), is recorded in equity. The fair value of warrants was estimated using the Black-Scholes Option Pricing Model assuming a risk-free interest rate of 1.54%, an expected life of 1 year, an expected volatility of 110% and no expected dividend.

On March 22, 2019, the Company issued 6,000,000 performance warrants. The conditions for vesting are as follows:

- 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 December 31, 2019, the first and second performance conditions were achieved. The fair value of the performance warrants, \$2,026,615 (CAD\$2,717,894), has 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 1.54%, an expected life of 1.28 years, an expected volatility of 110% 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.
- 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 December 31, 2019, all three performance conditions were either not achieved or determined by management to not be achievable; therefore, none of the warrants were vested and no expense recorded.

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**16. SHARE CAPITAL (Cont'd)**

**Warrants (Cont'd)**

On May 15, 2019, the Company issued 2,600,000 financing fee warrants 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 \$451,642 (CAD\$607,504), is recorded in equity. The fair value was estimated using the Black-Scholes Option Pricing Model assuming a risk-free interest rate of 1.61%, an expected life of 1 year, expected volatility of 107% and no expected dividend.

On May 16, 2019, the Company issued 26,338,747 warrants as part of the Debenture Units issued (see Note 14). 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 CAD\$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 CAD\$0.90 per share until May 16, 2022.

The fair value of the agents' compensation warrants and finders warrants, \$427,732 (CAD\$574,829), is 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 110% and no expected dividend.

Subsequent to the year ended December 31, 2019, the Company amended its May Debentures Units whereby:

- Interest rate increased from 8% to 10%
- Conversion price decreased from CAD\$0.75 per share to CAD\$0.05 per share
- Exercise price of warrants from CAD\$0.90 to \$0.075

On April 1 and July 1, 2019, the Company issued 4,818,473 warrants in relation to the acquisition of NE (see Note 4). Each warrant entitles the holder to purchase one common share of the Company at an exercise price of CAD\$1.33 per share until April 1 and July 1, 2022.

The fair value of these warrants, \$1,036,409 (CAD\$1,382,247), is 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 1.43% - 1.59%, an expected life of 3 years, expected volatility of 110% and no expected dividend.

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**16. SHARE CAPITAL (Cont'd)**

**Warrants (Cont'd)**

Details regarding warrants issued and outstanding are summarized as follows:

	Weighted average exercise price (CAD)	Number of shares issued or issuable on exercise
Warrants outstanding, beginning	\$ -	-
Warrants issued	0.64	54,974,293
Warrants exercised	0.20	(7,862,400)
Balance at December 31, 2019	\$ 0.71	47,111,893

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	6,000,000
March 22, 2019	June 30, 2021	0.05	11,000,000
March 22, 2019	September 22, 2020	0.50	722,780
March 22, 2019	September 22, 2020	0.55	2,000,000
April 1, 2019	April 1, 2022	1.33	3,114,998
May 16, 2019	May 16, 2022	0.90	27,833,040
May 15, 2019	May 15, 2020	0.55	2,600,000
July 1, 2019	July 1, 2022	1.33	1,703,475
		\$ 0.92	54,974,293

There are 36,111,893 exercisable warrants and 11,000,000 performance warrants that are not exercisable at December 31, 2019.

**17. COMMITMENTS**

**Vehicle Loans**

The company obtained financing for motor vehicles acquired. The loans are secured by the vehicles financed. The loans have terms ranging from 60 – 72 months and bear interest at 5.60% - 13.49%.

	December 31, 2019	December 31, 2018
Balance, beginning of year	\$ 113,269	\$ 90,253
Issued	68,499	55,991
Interest expense	7,540	14,587
Repayments	(47,283)	(47,562)
Retirement	(34,280)	-
Balance, end of year	107,745	113,269
Current	26,606	25,496
Long-term	\$ 81,139	\$ 87,773

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

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**17. COMMITMENTS (Cont'd)**

Year		
2020	\$	26,606
2021		20,594
2022		19,038
2023		13,539
2024		11,028
2025		7,071
2026		9,869
Total	\$	107,745

**18. INCOME TAXES**

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

	December 31, 2019	December 31, 2018
Net loss before tax	\$ (42,502,634)	\$ (14,295,330)
Statutory tax rate	27%	34.0%
Expected income tax recovery	(11,475,711)	(4,860,000)
Impact of different foreign statutory tax rates on earnings of subsidiaries	1,117,711	-
Non-deductible expenditures and non-taxable revenues	5,139,000	539,000
Adjustments to prior year provisions versus statutory tax returns	813,957	-
Foreign exchange	(19,957)	-
Change in unrecognized deductible temporary differences	4,197,281	4,290,000
Other	-	31,000
Income tax recovery	\$ (227,719)	\$ -

The significant components of deferred tax assets that have not been included on the statements of financial position are as follows

	December 31, 2019	December 31, 2018
Deferred tax assets (liabilities):		
Share issuance costs	\$ 25,000	\$ -
Property and equipment	-	85,000
Intangibles	(140,000)	-
Non-capital losses available for future period (USA)	6,747,000	4,411,000
Non-capital losses available for future period (Canada)	2,289,000	-
	8,921,000	4,496,000
Unrecognized deferred tax assets	(8,921,000)	(4,496,000)
	\$ -	\$ -

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

	December 31, 2019	December 31, 2018
Temporary differences:		
Property and equipment	\$ -	\$ 249,441
Share issuance costs	\$ 91,061	\$ -
Non-capital losses available for future period (USA)	\$ 31,158,539	\$ 12,971,000
Non-capital losses available for future period (Canada)	\$ 8,477,319	\$ -

The Company has approximately \$8,477,319 of non-capital losses in Canada which expire between 2030 – 2038, and approximately \$31,158,539 of non-capital losses in the US which expire between 2034 – 2038. Tax attributes are subject to review and potential adjustment by tax authorities.

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**19. 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**

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company is subject to credit risk on its cash and accounts receivable. The Company limits its exposure to credit loss on cash by placing its cash with a high-quality financial institution. The Company has concentrations of credit risk with respect to accounts receivable as large amounts of its accounts receivable are concentrated amongst a small number of customers. The Company performs credit evaluations of its customers but generally does not require collateral to support accounts receivable. Accounts receivable are shown net of any provision made for impairment of the receivables. Due to this factor, the Company believes that no additional credit risk, beyond amounts provided for collection loss, is inherent in accounts receivable.

For the years ended December 31, 2019 and 2018, the following revenue was recorded from customers that comprise 10% or more of revenue:

Percentage of revenue from major customers	2019	2018
Customer A (related party)	67%	99%
Customer B (related party)	12%	-

**Liquidity Risk**

Liquidity risk arises from the Company's general and capital financing needs. The Company continuously monitors and reviews both actual and forecasted cash flows, and also matches the maturity profile of financial assets and liabilities, when feasible.

The table below summarizes the maturity profile of the Company's financial liabilities at December 31, 2019 and 2018:

	On demand (\$)	Less than 1 year (\$)	1 to 2 years (\$)	2 to 3 years (\$)	Total (\$)
Trade payables	2,679,296	-	-	-	2,679,296
Lease liabilities	-	543,762	309,596	-	853,358
Vehicle loans	-	26,606	20,594	60,545	107,745
Loans payable and accrued interest	569,706	414,530	500,000	-	1,484,236
Convertible debt and accrued interest	-	1,892,250	1,849,900	19,192,713	22,934,863
<b>Total liabilities</b>	<b>3,249,002</b>	<b>2,877,148</b>	<b>2,682,535</b>	<b>19,250,813</b>	<b>28,059,498</b>

**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.

## **19. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)**

### **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. The Company managed its interest rate risk by having a fixed rate for its convertible debentures. Based on borrowings that accrue interest as at December 31, 2018 and December 31, 2019, a 1% change in interest rate would not have a significant impact on net loss.

### **Other Price Risk**

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company does not hold equity investments in other entities and therefore is not exposed to a significant risk.

## **20. CAPITAL MANAGEMENT**

The Capital 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.

## **21. SUBSEQUENT EVENTS**

Subsequent to the year ended December 31, 2019, the Company held a special meeting of shareholders, debenture-holders and warrant-holders whereby special resolutions to make amendments to the December 2019 amended debentures and warrants (see Notes 14 and 16):

- Decrease the conversion price at which the debenture-holders may convert outstanding principal amount of the debentures into shares from CAD\$0.75 per share to CAD\$0.05 per share such that each CAD\$1,000 of outstanding principal amount under the debentures will be converted into 20,000 shares; and
- Decrease the price per share upon which the acceleration clause which gives the Company the right (but not the obligation) to convert the outstanding principal amount under the debentures into shares is triggered, such that if prior to May 16, 2022, being the maturity date of the Debentures, the daily volume weighted average price of the shares on the Canadian Securities Exchange (the "CSE") for five consecutive trading days exceeds CAD\$0.16 per share, the Company will have the right, at its option, to convert all of the principal amount of the debentures into shares at the conversion price of CAD\$0.05 per share.
- Decrease the exercise price at which the warrant-holders may exercise their warrants for shares from CAD\$0.90 per share to CAD\$0.75 per share; and
- Include a clause to accelerate the expiry date of the warrants, as is required by the policies of the CSE, whereby, if the closing price of the shares on the CSE for ten consecutive trading days exceeds CAD\$0.094 per share (the "Accelerated Period"), the expiry date of the Warrants will be automatically accelerated without any further action on the part of the Company or the warrant-holders to a date that is 30 days following the end of the Accelerated Period.

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**21. SUBSEQUENT EVENTS (Cont'd)**

On June 10, 2020, the Company purchased the brand name, Dabulous by assuming a note payable with a term of 34 months in the amount of \$195,000 with a cash payment of \$595,000. Cash payment was paid over the course of the co-manufacturing agreement which began on September 1, 2018. The sale was to be consummated upon the full payment of legal fees in the amount of \$12,500. Additionally, the Company purchased \$200,000 in various oil extraction equipment for total consideration paid for the Dabulous Brand of \$898,500.

The Company is involved in litigation and disputes arising in the normal course of operations with regards to monies owed for services. The amount owing has been included in Accounts Payable and Accrued Liabilities. Management is of the opinion that any potential litigation will not have a material adverse impact on the Company's financial position or results of operations.

Subsequent to the year ended December 31, 2019, 3,460,380 warrants expired.

Subsequent to the year ended December 31, 2019, the Company issued 28,856,762 common shares on conversion of convertible debentures and associated interest in lieu of cash and 3,564,598 common shares on conversion of debt.