IONIC BRANDS CORP.
(FORMERLY ZARA RESOURCES INC.)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2020

(EXPRESSED IN UNITED STATES DOLLAR)
(UNAUDITED)

MANAGEMENT'S COMMENTS ON
UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

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

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

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

IONIC BRANDS CORP. (FORMERLY ZARA RESOURCES INC.)
CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2020 (UNAUDITED)
(Expressed in United States Dollars)

	Notes		March 31, 2020		December 31, 2019
ASSETS					
Current Assets					
Cash		$	51,488	$	704,897
Trade and other receivables	6		2,884,681		3,252,511
Prepaid expenses and deposits	7		228,856		250,491
Inventory	8		250,427		224,651
Due from related parties	14		897,788		341,564
			4,313,240		4,774,114
Non-Current Assets					
Property and equipment	9		586,890		634,437
Patents, trademarks and brand	11		1,393,855		1,480,348
Right-of-use asset	10		887,651		958,428
TOTAL ASSETS		$	7,181,636	$	7,847,327
LIABILITIES AND SHAREHOLDERS' DEFICIENCY					
Current Liabilities					
Accounts payable and accrued liabilities	12	$	2,765,855	$	2,679,296
Loans payable	13		1,530,321		1,484,236
Current portion of lease liability	10		434,096		434,096
Current portion of vehicle loans	17		26,606		26,606
			4,756,878		4,624,234
Non-Current Liabilities					
Convertible debentures	15		13,967,330		11,973,871
Lease liability	10		240,959		286,137
Vehicle loans	17		74,683		81,139
TOTAL LIABILITIES			19,039,850		16,965,381
SHAREHOLDERS' DEFICIENCY					
Share capital	16		41,098,266		40,909,598
Reserves	16		5,315,660		7,415,636
Accumulative other comprehensive income			(448,760)		(332,866)
Accumulated deficit			(57,823,380)		(57,110,422)
TOTAL SHAREHOLDERS' DEFICIENCY			(11,858,214)		(9,118,054)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY		$	7,181,636	$	7,487,327

Nature and continuance of operations	1
Commitments	17
Subsequent events	20

Approved and authorized for issue by the Board of Directors on October 9, 2020

"John Gorst" — Director

"Christian Vara" — Director

IONIC BRANDS CORP. (FORMERLY ZARA RESOURCES INC.)
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019 (UNAUDITED)

(Expressed in United States Dollars)

		Three Months Ended	
	Notes	**March 31, 2020**	**March 31, 2019**
REVENUE			
Product sales	14	$ 549,193	$ 1,834,908
Equipment rental income	14	230,251	99,996
Royalty and service income	14	1,512,663	75,084
		2,292,107	2,009,988
COST OF GOODS SOLD		(1,985,294)	(915,126)
GROSS PROFIT		306,813	1,094,862
OPERATING EXPENSES			
Accretion	15	289,560	-
Advertising and promotion		3,811	389,693
Depreciation and amortization	9,10,11	204,817	28,034
Financing fees		14,748	-
Interest and finance charges	13,15	100,979	794,158
Listing expenses	4	-	444,049
Marketing and investor relations		10,992	-
Office and administration		189,676	104,520
Professional fees		218,404	454,885
Rent expense	14	13,275	48,233
Research and development		39,535	9,450
Salaries and wages	14	419,717	627,863
Share-based payments	16	21,982	5,751,652
Transfer agent and regulatory fees		24,951	44,330
Travel		29,812	136,193
		1,582,259	8,833,060
OTHER ITEMS			
Loss on acquisitions	5	-	(747,019)
Gain from forgiveness of debts		57,201	-
Gain on settlement of debts	16	125,743	-
Gain/(loss) from revaluation of warrants	16	419,260	-
Foreign exchange loss		(39,716)	(168,796)
		562,488	((915,815)
NET LOSS		(712,958)	(8,654,013)
OTHER COMPREHENSIVE LOSS			
Unrealized foreign exchange gain (loss) on translation of foreign operations		(115,894)	2,431
COMPREHENSIVE LOSS		(828,852)	8,651,582
LOSS PER SHARE – BASIC AND DILUTED		(0.00)	(0.15)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – BASIC AND DILUTED		164,334,154	59,669,734

IONIC BRANDS CORP. (FORMERLY ZARA RESOURCES INC.)
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2020 (UNAUDITED)

(Expressed in United States Dollars, except number of shares)

	Common Shares					
	Number of Shares	**Amount**	**Reserves**	**Accumulated Other Comprehensive income**	**Accumulated Deficit**	**Total**
Balance at December 31, 2018	54,251,241	$ 1,465,157	$ -	$ -	$ (14,835,507)	$ (13,370,350)
Net loss for the period	-	-	-	-	(8,654,013)	(8,654,013)
Shares issued for:						
Conversion of convertible debentures	32,363,816	16,652,251	28,237	-	-	16,680,488
Settlement of debt	1,075,818	409,294	-	-	-	409,294
Conversion of subscription receipts	14,280,146	5,324,042	89,056	-	-	5,413,098
Finders' fee shares	6,133,089	2,260,377	-	-	-	2,260,377
Recapitalization of Zara	331,995	123,777	-	-	-	123,777
Issuance of financing fee warrants	-	-	246,294	-	-	246,294
Issuance of performance warrants	-	-	5,751,652	-	-	5,751,652
Share issuance costs	-	(791,306)	-	-	-	(791,306)
Currency translation adjustments	-	-	-	(2,431)	-	(2,431)
Balance at March 31, 2019	108,436,105	25,443,592	6,115,239	(2,431)	(23,489,520)	8,066,880
Shares issued for:						
Settlement of debt	801,400	107,744	-	-	-	107,744
Finders' fee shares	1,270,835	149,320	32,837	-	-	182,157
Exercise of warrants	7,862,400	3,415,197	(2,218,638)	-	-	1,196,559
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
Issuance of financing fee warrants	-	-	(3,216,322)	-	-	(3,216,322)
Issuance of convertible debentures	-	-	3,796,546	-	-	3,796,546
Conversion of new convertible debentures	79,999	47,393	(12,201)	-	-	35,192
Issuance of stock options	-	-	1,881,766	-	-	1,881,766
Currency translation adjustments	-	-	-	(330,435)	-	(330,435)
Net loss for the period	-	-	-	-	(33,620,902)	(33,620,902)
Balance at December 31, 2019	161,749,791	40,909,598	7,415,636	(332,866)	(57,110,422)	(9,118,054)
Shares issued for:						

Settlement of debt	3,564,598	44,177	-	-	-	44,177
Conversion of convertible debentures	3,951,670	144,491	(21,890)	-	-	122,602
Issuance of stock options	-	-	20,838	-	-	20,838
Extinguishment of convertible debentures	-	-	(3,980,700)	-	-	(3,980,700)
Reissuance of convertible debentures	-	-	2,287,606	-	-	2,287,606
Cancellation of convertible debenture warrants	-	-	(427,732)	-	-	(427,732)
Reissuance of convertible debenture warrants	-	-	21,901	-	-	21,901
Currency translation adjustments	-	-	-	(115,894)	-	(115,894)
Net loss for the period	-	-	-	-	(712,958)	(712,958)
Balance at March 31, 2020	169,266,059	$ 41,098,266	$ 5,315,660	$ (448,760)	$ (57,823,380)	$ (11,858,214)

The accompanying notes are integral to these financial statements.

IONIC BRANDS CORP. (FORMERLY ZARA RESOURCES INC.)
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019 (UNAUDITED)

(Expressed in United States Dollars)

	Three Months Ended	
	March 31, 2020	March 31, 2019
Cash Flows from Operating Activities		
Net income (loss) for the period	$ (712,958)	$ (8,654,013)
Adjustments for items not affecting cash:		
Accretion	289,560	
Depreciation	204,817	28,034
Gain on forgiveness of debts	(57,201)	-
Gain on revaluation of warrants	(419,260)	-
Gain on settlement of debts	(125,743)	-
Interest and finance charges	46,085	330,087
Listing expenses	-	444,019
Loss on acquisitions	-	747,019
Share-based payments	21,982	5,751,652
	(752,718)	(1,353,172)
Changes in non-cash working capital:		
Trade and other receivables	365,590	1,707,051
Accounts payable and accrued liabilities	86,559	(505,118)
Prepaids and deposits	21,635	403,316
Inventory	(25,777)	(45,717)
Due from related parties	(292,740)	-
	(597,451)	206,360
Cash Flows (used in) Investing Activities		
Purchase of property and equipment	-	(385,121)
Acquisition of US subsidiaries	-	27,313
	-	(357,808)
Cash Flows from Financing Activities		
Modification of convertible debentures	(258,451)	-
Conversion of convertible debentures	258,451	-
Principal elements of lease payments	(45,178)	-
Proceeds from loans payable	-	7,012,981
Repayment of loans payable	-	(4,754,587)
Repayment of vehicle loans	(6,456)	(7,567)
	(51,634)	2,250,827
Effect of exchange rate changes on cash	(4,324)	283,075
Changes in cash during the period	(649,085)	2,099,373
Cash, beginning of period	704,897	99,772
Cash, end of period	$ 51,488	$ 2,482,226

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 4) for more details.

Going Concern
These condensed consolidated interim 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 $712,958, has working capital deficiency of $443,638 and an accumulated deficit of $57,823,380. 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 condensed consolidated interim 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.

2. BASIS OF PREPARATION

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

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

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

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

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

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

The following subsidiaries have been consolidated for 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.

2. BASIS OF PREPARATION (Cont'd)

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.

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.

(Expressed in United States Dollars)

2. BASIS OF PREPARATION (Cont'd)

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 form 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

		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%.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Areas of Judgment

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

Areas of Judgment (Cont'd)

Impairment

The carrying value of long lived assets is reviewed each reporting period to determine whether there is any indication of impairment. If the carrying amount of an asset exceeds its recoverable amount, the asset is impaired, and an impairment loss is recognized in the statement of operations. The assessment of fair values, require the use of estimates and assumptions for recoverable production discount rates, foreign exchange rates, future capital requirements and operating performance. Changes in any of the assumptions or estimates used in determining the fair value of long lived assets could impact the impairment analysis.

Allowance for Doubtful Accounts, and the Recoverability of Receivables

Significant estimates are involved in the determination of recoverability of receivables and no assurance can be given that actual proceeds will not differ significantly from current estimations. Management has made significant assumptions about the recoverability of receivables. During the three months ended March 31, 2019, the Company recorded an impairment expense of $nil (March 31, 2019 - $nil) 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 that may result in regulatory or government actions that may negatively impact the Company's business or operations, the Company and its legal counsel evaluate the perceived merits of the legal proceeding or unasserted claim or action as well as the perceived merits of the nature and amount of relief sought or expected to be sought, when determining the amount, if any, to recognize as a contingent liability or when assessing the impact on the carrying value of the Company's assets. Contingent assets are not recognized in the annual consolidated financial statements.

Income Taxes

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

Significant Judgments

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

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

(Expressed in United States Dollars)

4. 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 allocation of consideration transferred is summarized as follows:

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

(Expressed in United States Dollars)

5. 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.

(Expressed in United States Dollars)

5. ACQUISITION OF SUBSIDIARIES (Cont'd)

Natural Extractions, Inc. (Cont'd)

The allocation of consideration transferred is summarized as follows:

Purchase Price		
Cash payment	$	855,000
9,635,150 common shares		2,609,505
4,817,575 warrants		1,036,365
Total purchase price	$	4,500,870
Allocation of Purchase Price		
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
Net assets acquired	$	4,500,870

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.

(Expressed in United States Dollars)

5. 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. During the three months ended March 31, 2020, 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.

6. TRADE AND OTHER RECEIVABLES

		March 31, 2020		December 31, 2019
Trade receivables	$	3,478,109	$	3,701,666
GST and other receivables		1,546,905		1,691,178
Provision for doubtful accounts		(2,140,333)		(2,140,333)
	$	2,884,681	$	3,252,511

During the three months ended March 31, 2020, the Company recorded a provision for doubtful accounts of $nil (March 31, 2019 - $nil) 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.

Included in other receivables is $907,000 from WW Agriculture ("WWAG") with respect to the purchase of the Dabulous brand (Note 20) and $200,000 refundable deposit that was advanced for an asset acquisition.

7. PREPAID EXPENSES AND DEPOSITS

		March 31, 2020		December 31, 2019
Prepaid expenses	$	177,519	$	199,154
Deposits		51,337		51,337
	$	228,856	$	250,491

(Expressed in United States Dollars)

8. INVENTORY

	March 31, 2020	December 31, 2019
Raw materials	$ 231,903	$ 1,009
Work in progress	18,524	8,656
Finished goods	-	214,986
	$ 250,427	$ 224,651

During the three months ended March 31, 2020, total cost of inventory sold was $1,985,294 (March 31, 2019 - $915,126).

9. PROPERTY AND EQUIPMENT

	Motor Vehicles ($)	Computer Equipment ($)	Furniture and Fixtures ($)	Leasehold Improvements ($)	Lab Equipment ($)	Total ($)
Cost:						
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
Acquisition	-	-	-	-	-	-
Additions	-	30,209	-	-	-	30,209
Disposal	-	-	(502)	(1,785)	(5,838)	(8,125)
At March 31, 2020	194,118	199,064	130,326	149,115	515,285	1,159,985
Amortization:						
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
Charge for the period	52,666	16,967	-	-	-	69,633
Eliminated on disposal	-	-	-	-	-	-
At March 31, 2020	118,867	77,927	23,781	137,090	237,516	595,181
Net Book Value:						
At December 31, 2019	127,917	107,895	107,047	13,810	277,769	634,437
At March 31, 2020	75,251	121,137	106,546	12,025	271,931	586,890

(Expressed in United States Dollars)

10. RIGHT-OF-USE ASSETS AND LEASE LIABILITY

Right-of-Use Assets

	($)
Cost:	
Balance at January 1, 2019, on adoption of IFRS 16	371,188
Additions	817,572
Balance at March 31, 2020 and December 31, 2019	1,188,760
Accumulated amortization:	
Balance at January 1, 2019, on adoption of IFRS 16	-
Depreciation	(230,332)
Balance at December 31, 2019	(230,332)
Depreciation	(70,777)
Balance at March 31, 2020	(301,109)
Net book value:	
Balance at December 31, 2019	958,428
Balance at March 31, 2020	887,651

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
Interest expense	25,989
Lease payments	(71,167)
At March 31, 2020	675,055
Current portion	434,096
Non-current portion	240,959

At March 31, 2020, the Company is committed to minimum lease payments as follows

		March 31, 2020
Not later than one year	$	543,762
Later than one year and not later than five years		238,429
Total minimum lease payments		782,191
Less: amounts representing finance costs		107,136
Present value of minimum lease payments	$	675,055

(Expressed in United States Dollars)

11. PATENTS, TRADEMARKS AND BRAND

	Patents ($)	Brand (1) ($)	Db3 Option ($)	Goodwill (1) ($)	Total ($)
Cost:					
At December 31, 2018	-	-	-	-	-
Additions	845,432	890,000	760,033	3,483,274	5,978,739
At March 31, 2020 and December 31, 2019	845,432	890,000	760,033	3,483,274	5,978,739
Amortization:					
At December 31, 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
Charge for the period	12,530	73,963	-	-	86,493
March 31, 2020	44,911	296,666	760,033	3,483,274	4,584,884
Net Book Value:					
At December 31, 2019	813,051	667,297	-	-	1,480,348
At March 31, 2020	800,521	593,334	-	-	1,393,855

(1) Acquired upon acquisition of Natural Extractions (see Note 5).

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 5). As the Company did not exercise the Db3 option, the amount was impaired.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2020	December 31, 2019
Trade payables	$ 2,661,322	$ 1,912,971
Accrued expenses	104,533	766,325
	$ 2,765,855	$ 2,679,296

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

13. LOANS PAYABLE

During the year ended December 31, 2015, Blacklist issued a promissory note to a company related to a director of Blacklist for the amount of $9,274. The promissory note was interest bearing at 10.5% per annum, unsecured and due on demand. During the year ended December 31, 2018, $390,550 of balance outstanding and accrued interest of a director of Blacklist was assigned to a company related to a director of Blacklist. During the 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 Backlist'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.

(Expressed in United States Dollars)

13. 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 March 31, 2020, the balance outstanding including accrued interest was $614,276 (December 31, 2019 - $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 March 31, 2020, the outstanding balance was $500,000 (December 31, 2019 - $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 March 31, 2020, the balance outstanding was $416,467 (December 31, 2019 - $414,530).

		March 31, 2020		December 31, 2019
Balance, beginning	$	1,484,236	$	761,113
Issued		-		6,997,316
Interest expense		46,085		539,047
Repayment of loans payable		-		(6,813,240)
Balance, ending	$	1,530,321	$	1,484,236

14. RELATED PARTY TRANSACTIONS

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers. The remuneration of directors and key management personnel during the three months ended March 31, 2020 and 2019 was as follows:

		March 31, 2020		March 31, 2019
Salaries and wages	$	132,002	$	227,025
Professional fees		10,500		46,500
Rent		-		9,000
	$	142,502	$	282,525

14. RELATED PARTY TRANSACTIONS (Cont'd)

Accounts Payable and Accrued Liabilities
As at March 31, 2020, the following amounts in accounts payable were due to related parties:

- $34,975 (December 31, 2019 - $33,377) owing to a director for services rendered;
- $142,225 (December 31, 2019 - $142,225) owing to officers for deferred compensation.

Loans Payable
As at March 31, 2020, $nil (December 31, 2019 - $nil) in loans payable were owed to related parties (Note 13). During the three months ended March 31, 2020, the Company recorded interest expense of $nil (March 31, 2019 - $14,737) paid to related parties.

Accounts Receivable
As at March 31, 2020, $1,769,985 (December 31, 2019 - $1,789,000) 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 March 31, 2020, the balance outstanding was $316,564 (December 31, 2019 - $316,564) as the loan was impaired in the year ended December 31, 2019 due to the uncertainty of the companies' ability to repay the entire balance.

Transactions with Related Parties
During the three months ended March 31, 2020, the Company had product and service sales to a company jointly owned by the Company's CEO and former CFO of $1,975,132 (March 31, 2019 - $1,487,050).

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 10). 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 expired 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 three months ended March 31, 2020, the Company recognized equipment rental income of $320,251 (March 31, 2019 – $99,996).

14. RELATED PARTY TRANSACTIONS (Cont'd)

Transactions with Related Parties (Cont'd)

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 three months ended March 31, 2020, the Company recognized royalty income of $192,605 (March 31, 2019 - $108,422).

During the three months ended March 31, 2020, the Company earned $124,496 (March 31, 2019 - $nil) in procurement fees from a company jointly controlled by the Company's CEO and former CFO.

During the three months ended March 31, 2020, the Company incurred expenses of $15,503 (March 31, 2019 – $nil) 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.

15. CONVERTIBLE DEBENTURES

On July 6, 2018, Blacklist entered into convertible secured debenture agreements (individually, the "Convertible Debenture") for $577,459 (CAD$735,000). The Convertible Debenture bore interest at 0% per annum, provided, however, that if the Transaction was terminated in accordance with its terms, Blacklist shall pay interest at the rate of 9% per annum from the date that is the three-month anniversary of the date of termination of the Transaction. The interest shall accrue and shall be payable on the earlier of the maturity date or upon conversion of the Convertible Debenture. The Convertible Debenture is due on October 18, 2020, provided if the Transaction was duly terminated pursuant to its terms, then October 18, 2019. On March 22, 2019, upon closing of the Transaction, the principal amount of this Convertible Debenture was converted to 21,000,000 common shares 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.

15. CONVERTIBLE DEBENTURES (Cont'd)

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 form 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).

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 s 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).

In January 2020, 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.

Due to the amendment to the terms of the Debenture Units, the Company is deemed to have extinguished the existing debentures and reissued new debentures with the new terms. The Company revalued the conversion feature of the new debentures to be $2,287,606 (CAD$2,972,058). 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%.

(Expressed in United States Dollars)

15. CONVERTIBLE DEBENTURES (Cont'd)

		March 31, 2020		December 31, 2019
Balance, beginning	$	11,973,871	$	12,119,940
Issue of convertible debentures, net		-		9,842,753
Change in fair value of convertible debentures (1)		-		4,728,285
Extinguishment of convertible debentures		(11,973,871)		-
Reissuance of convertible debentures		13,801,066		-
Conversion to common shares		(123,296)		(16,687,443)
Accretion and interest		289,560		1,786,446
Foreign exchange		-		183,890
Balance, end	$	13,967,330	$	11,973,871

(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 and the three months ended March 31, 2020, the convertible option was valued using the share price of the Company.

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.

16. SHARE CAPITAL (Cont'd)

Issued Share Capital (Cont'd)

On March 22, 2019, pursuant to convertible secured debenture agreements (see Note 15), 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. 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).

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 11).

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 5) 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 15).

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 5) 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 15).

On August 8, 2019, the Company issued 1,270,224 common shares as finders fees for VVG acquisition in Note 5. 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).

16. SHARE CAPITAL (Cont'd)

Issued Share Capital (Cont'd)

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 5) 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 15).

On January 31, 2020, the Company issued 3,564,598 common shares for settlement of debt. The fair value of the debt was $171,973 (CAD$227,572); the fair value of the shares was $47,177 (CAD$58,459) and the Company recognized a gain of $125,742 (CAD$169,112).

On March 18, 2020, the Company issued 572,696 common shares to holders of the Company's convertible debentures as the holders opted to convert their debentures and accrued interest for a face value of $20,874 (CAD$30,258) (see Note 15).

On March 25, 2020, the Company issued 2,309,352 common shares to holders of the Company's convertible debentures as the holders opted to convert their debentures and accrued interest for a face value of $84,491 (CAD$120,839).

On March 31, 2020, the Company issued 1,069,622 common shares to holders of the Company's convertible debentures as the holders opted to convert their debentures and accrued interest for a face value of $39,127 (CAD$55,510).

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.

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.

(Expressed in United States Dollars)

16. SHARE CAPITAL (Cont'd)

Stock Options (Cont'd)

	Number of Options		Weighted Average Exercise Price (CAD)
Balance at December 31, 2018	-	$	-
Stock options granted	8,218,000		0.53
Balance at March 31, 2020 and December 31, 2019	8,218,000	$	0.53
Exercisable at December 31, 2019	6,163,500	$	0.53
Exercisable at March 31, 2020	7,588,500	$	0.53

As at March 31, 2020, the following stock options were outstanding and exercisable:

Number Outstanding	Number Exercisable		Exercise Price (CAD)	Expiry Date
5,700,000	5,700,000	$	0.68	April 12, 2024
2,518,000	1,888,500	$	0.20	August 16, 2024
8,218,000	7,588,500			

The options have a grant date fair value of $1,913,825 and the Company recorded share-based compensation of $20,838 during the three months ended March 31, 2020 (March 31, 2019 - $nil). All option grants were valued using the Black-Scholes Option Pricing Model with the following assumptions:

	2019
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.

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.

16. SHARE CAPITAL (Cont'd)

Warrants (Cont'd)
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 March 31, 2020, 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.

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.

(Expressed in United States Dollars)

16. SHARE CAPITAL (Cont'd)

Warrants (Cont'd)
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.

In January 2020, 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

Due to the amendments to the Debenture warrants, the Company deemed to have cancelled the existing warrants and issued new warrants to the Debenture warrant holders. The Company used the Black-Scholes Option Pricing Model to estimate the fair value of the Debenture warrants being $8,437, assuming a risk-free interest rate of $1.68%, an expected life of 2.37 years, expected volatility of 110% and no expected dividend.

On April 1 and July 1, 2019, the Company issued 4,818,473 warrants in relation to the acquisition of NE (see Note 5). 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.

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 March 31, 2020 and December 31, 2019	$	0.71	47,111,893

(Expressed in United States Dollars)

16. SHARE CAPITAL (Cont'd)

Warrants (Cont'd)
The expiry dates of warrants are as follows:

Grant Date	Expiry Date		Weighted average exercise price (CAD)	Number of warrants
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
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 7,024,880 performance warrants that are not exercisable at March 31, 2020.

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%.

		March 31, 2020		December 31, 2019
Balance, beginning of year	$	107,745	$	113,269
Issued		-		68,499
Interest expense		563		7,540
Repayments		(7,019)		(47,283)
Retirement		-		(34,280)
Balance, end of year		101,289		107,745
Current		26,606		26,606
Long-term	$	74,683	$	81,139

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

Year		
2020	$	20,232
2021		23,039
2022		21,615
2023		19,294
2024		11,028
2025		6,080
2026		-
Total	$	101,289

18. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

(Expressed in United States Dollars)

18. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

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 three months ended March 31, 2020 and 2019, the following revenue was recorded from customers that comprise 10% or more of revenue:

Percentage of revenue from major customers	2020	2019
Customer A (related party)	96%	67%
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 March 31, 2020:

	On demand ($)	Less than 1 year ($)	1 to 2 years ($)	2 to 3 years ($)	Total ($)
Trade payables	2,765,855	-	-	-	2,765,855
Lease liabilities	-	543,762	238,429	-	782,191
Vehicle loans	-	26,606	23,039	51,644	101,289
Loans payable and accrued interest	639,633	390,688	500,000	-	1,530,321
Convertible debt and accrued interest	-	1,892,250	1,849,900	19,192,713	22,934,863
Total liabilities	3,405,488	2,853,306	2,611,368	19,244,357	28,114,519

Foreign Exchange Risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company's exposure to currency risk is limited as the majority of its sales and expenditures are denominated in the same currency as its functional currency.

Interest Rate Risk

Interest rate risk if the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company managed its interest rate risk by having a fixed rate for its convertible debentures. Based on borrowings that accrue interest as at March 31, 2020 and 2019, a 1% change in interest rate would not have a significant impact on net loss.

18. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

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.

19. 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, 2019.

20. SUBSEQUENT EVENTS

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 three month ended March 31, 2020, 3,460,380 warrants expired.