

ZARA RESOURCES INC.
(to be renamed Ionic Brands Corp.)

FORM 2A - LISTING STATEMENT

MARCH 22, 2019

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CAUTIONARY STATEMENTS REGARDING U.S. CANNABIS OPERATIONS

This Listing Statement was furnished by and on behalf of the management of Zara Resources Inc. (the “Issuer”) in order to qualify for listing of the securities of the Issuer following a fundamental change under the Policies of the Canadian Securities Exchange. Following the completion of the Transaction, the Issuer will have ancillary involvement (through its subsidiary) in the cannabis industry in the United States where local state laws permit such activities. Currently, the Issuer is not directly engaged in the manufacture, importation, possession, use, sale or distribution of cannabis in the recreational cannabis marketplace in Canada or the United States, although the Issuer intends, in the future, to obtain a license to directly engage in the cultivation, processing, and/or retail sale of cannabis.

The Issuer, through a wholly-owned subsidiary, Blacklist (as defined herein), leases and licenses equipment, vehicles, brands and intellectual property, and enters into material supply agreements with licensed cannabis companies. Blacklist’s primary business focus involves activities ancillary to the marijuana production and processing industry in the states of Washington, Oregon and California, including as a lessor, service and material provider, and intellectual property licensor with respect to state licensed marijuana producers. See Section 5 – *Narrative Description of the Business* hereof.

The cultivation, sale and use of cannabis is illegal under federal law pursuant to the U.S. Controlled Substance Act of 1970 (the “Controlled Substances Act”). Under the Controlled Substances Act, the policies and regulations of the United States Federal Government and its agencies are that cannabis has no medical benefit and a range of activities including cultivation and the personal use of cannabis is prohibited. The Supremacy Clause of the United States Constitution establishes that the United States Constitution and federal laws made pursuant to it are paramount and in case of conflict between federal and state law, the federal law shall apply.

On January 4, 2018, former U.S. Attorney General Jeff Sessions issued a memorandum to U.S. district attorneys, which rescinded previous guidance from the U.S. Department of Justice specific to cannabis enforcement in the United States, including the Cole Memorandum (as defined herein). With the Cole Memorandum rescinded, U.S. federal prosecutors have been given discretion in determining whether to prosecute cannabis related violations of U.S. federal law. If the Department of Justice policy was to aggressively pursue financiers or equity owners of cannabis-related business, and United States Attorneys followed such Department of Justice policies through pursuing prosecutions, then the Resulting Issuer could face (i) seizure of its cash and other assets used to support or derived from its cannabis subsidiaries, and (ii) the arrest of its employees, directors, officers, managers and investors, who could face charges of ancillary criminal violations of the Controlled Substances Act for aiding and abetting and conspiring to violate the Controlled Substances Act by virtue of providing financial support to state-licensed or permitted cultivators, processors, distributors, and/or retailers of cannabis. Additionally, as has recently been affirmed by U.S. Customs and Border Protection, employees, directors, officers, managers and investors of the Resulting Issuer who are not U.S. citizens face the risk of being barred from entry into the United States for life.

Unless and until the United States Congress amends the Controlled Substances Act with respect to medical and/or adult-use cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a significant risk that federal authorities may enforce current U.S. federal law. If the U.S. federal government begins to enforce U.S. federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing applicable state laws are repealed or curtailed, the Resulting Issuer's business, results of operations, financial condition and prospects would be materially adversely affected.

Despite the current state of the federal law and the Controlled Substances Act, well over half of the states of the United States have enacted legislation to legalize and regulate the sale and use of medical cannabis without limits on tetrahydrocannabinol ("THC"), while other states have legalized and regulated the sale and use of medical cannabis with strict limits on the levels of THC. However, there is no guarantee that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local government authorities will not limit the applicability of state laws within their respective jurisdictions.

For the reasons set forth above, the Issuer's interests in the United States cannabis market may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada.

There are a number of risks associated with the business of the Issuer. See Section 18 – Risk Factors hereof.

GLOSSARY

“**Acquisition**” means the acquisition of all the issued and outstanding Blacklist Shares by Zara as set out in the Share Exchange Agreement;

“**Affiliate**” means a company that is affiliated with another company as described below. A company is an “**Affiliate**” of another company if (a) one of them is the subsidiary of the other, or (b) each of them is controlled by the same Person. A company is “controlled” by a Person if (a) voting securities of a company are held, other than by way of security only, by or for the benefit of that Person, and (b) the voting securities, if voted, entitle the Person to elect a majority of the directors of a company. A Person beneficially owns securities that are beneficially owned by (a) a company controlled by that Person, or (b) an Affiliate of that Person or an Affiliate of any company controlled by that Person;

“**Amalco**” means the continuing corporation constituted upon the amalgamation of Zara Subco and Blacklist Finco pursuant to the Amalgamation;

“**Amalgamation**” means the amalgamation to be implemented by way of a “three-cornered” amalgamation whereby Zara Subco will amalgamate with Blacklist Finco pursuant to the Amalgamation Agreement;

“**Amalgamation Agreement**” means the agreement among Zara, Zara Subco and Blacklist Finco dated December 24, 2018;

“**Associate**” has the meaning ascribed to such term in the *Securities Act* (British Columbia), as amended, including the regulations promulgated thereunder;

“**Auditors**” has the meaning ascribed to such term in Section 22.1 of this Listing Statement;

“**BCBCA**” means the *Business Corporations Act* (British Columbia), as amended, including the regulations promulgated thereunder;

“**Blacklist**” means Blacklist Holdings, Inc., a Washington State corporation;

“**Blacklist Annual Financial Statements**” means the audited Blacklist’s Statement of financial position as at December 31, 2017 and 2016 and the statements of comprehensive loss, changes in shareholders’ equity (deficiency), and cash flows for the years then ended;

“**Blacklist Debentureholders**” means the holders of Blacklist Debentures;

“**Blacklist Debentures**” has the meaning ascribed to such term in Section 2.1 of this Listing Statement;

“**Blacklist Finco**” means Blacklist Finco Inc.;

“**Blacklist Finco Finder’s Warrants**” means the common share purchase warrants of Blacklist Finco entitling the holder thereof to acquire one Blacklist Finco Share at an exercise price of \$0.50 per share at any time up until 18 months from the date of the closing of Transaction;

“**Blacklist Finco Shareholders**” means holders of Blacklist Finco Shares;

“**Blacklist Finco Shares**” means the common shares in the capital of Blacklist Finco;

“**Blacklist Finder’s Warrants**” means common share purchase warrants of Blacklist entitling the holder thereof to acquire one Blacklist Share at an exercise price of \$0.50 per share at any time up until 18 months from the date of issuance;

“**Blacklist Interim Financial Statements**” means the unaudited interim financial statements of Blacklist for the nine month period ended September 30, 2018 and 2017;

“**Blacklist Shareholders**” means holders of Blacklist Shares;

“**Blacklist Shares**” means common stock in the capital of Blacklist;

“**Blacklist Warrants**” means Blacklist Finder’s Warrants and Performance Warrants;

“**Board of Directors**” means the board of directors of Zara;

“**Business Combination**” has the meaning ascribed to such term in MI 61-101;

“**CBD**” means cannabidiol;

“**CDS**” means the CDS Clearing and Depository Services Inc.;

“**CDS MOU**” has the means set out under the heading “*Risk Factors – Risks Specifically Related to the United States*”;

“**CEO**” means Chief Executive Officer;

“**CFO**” means Chief Financial Officer;

“**Closing**” means the closing of the Transaction;

“**Closing Date**” means the date of closing of the Transaction;

“**Cole Memorandum**” has the meaning ascribed to such term in Section 4.3 of this Listing Statement;

“**company**” unless specifically indicated otherwise, means a corporation, incorporated association or organization, body corporate, partnership, trust, association or other entity other than an individual;

“**Consolidation**” means the consolidation of the issued and outstanding pre-consolidated Zara Shares at a ratio of 35.9389 pre-Consolidation Zara Shares for one post-Consolidation Zara Share;

“**Controlled Substances Act**” has the meaning ascribed to such term under the heading “*Cautionary Statements Regarding U.S. Cannabis Operations*”;

“**Conversion of Subscription Receipts**” means the automatic exchange of Subscription Receipts for common shares of Blacklist Finco without payment of additional consideration pursuant to the terms and conditions of the Subscription Receipts and the Subscription Receipt Agreement;

“**CSA**” means the Canadian Securities Administrators;

“**CSE**” means the Canadian Securities Exchange;

“**CSE Listing**” means the listing of the Resulting Issuer Shares on the CSE;

“**Debenture Financing**” has the meaning ascribed to such term in Section 2.1 of this Listing Statement;

“**DOJ**” has the meaning ascribed to such term in Section 4.3 of this Listing Statement;

“**Effective Date**” means the effective date of the Transaction;

“**Escrow Release Conditions**” has the meaning ascribed to such term in Section 2.1 of this Listing Statement;

“**Exchange Ratio**” means the ratio of one Zara Share for each issued and outstanding Blacklist Share as of the Closing Date;

“**FinCEN Memorandum**” has the meaning ascribed to such term in Section 4.3 of this Listing Statement;

“**Finders**” means Privateer Capital Management, LP and Skanderbeg Capital Advisors Inc.;

“**Government Authority**” means any (a) multinational, federal, provincial, territorial, state, regional, municipal, local or other government, governmental or public department, court, tribunal, commission, board or agency, domestic or foreign, or (b) regulatory authority, including any securities commission, or stock exchange, including the CSE;

“**Leahy Amendment**” has the meaning ascribed to such term under Section 4.3 of this Listing Statement;

“**Listing Date**” means the date of the CSE Listing;

“**Listing Statement**” means this listing statement;

“**Loan**” has the meaning ascribed to such term under Section 2.1 of this Listing Statement;

“**Loan Warrants**” has the meaning ascribed to such term under Section 2.1 of this Listing Statement;

“**MD&A**” means management’s discussion and analysis;

“**MI 61-101**” means Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions*, and the companion policies and forms thereto, as amended from time to time;

“**Named Executive Officer**” or “**NEO**” has the meaning ascribed to such term in Section 16 of this Listing Statement;

“**Performance Warrants**” means the 17,000,000 share purchase warrants to be issued to Skanderbeg Capital Advisors Inc. and certain Blacklist Shareholders prior to the Closing Date to acquire Blacklist Shares at an exercise price of \$0.05 per Blacklist Share for 12 months following the Closing Date;

“**person**” means a company or individual;

“**Pro-Forma Financial Statements**” means the unaudited pro-forma financial statements for the Resulting Issuer as at October 31, 2018 to give effect to the Transaction as if it had taken place as of October 31, 2018, which is attached as Schedule “A” of this Listing Statement;

“**Related Party Transaction**” has the meaning ascribed to such term in MI 61-101;

“**Resulting Issuer**” means Zara after giving effect to the Transaction, at which time Zara is expected to be renamed “Ionic Brands Corp.”;

“**Resulting Issuer Shares**” means Zara Shares after the Transaction, including after the Consolidation;

“**SAR**” has the meaning ascribed to such term in Section 4.3 of this Listing Statement;

“**Securities Act**” means the *Securities Act* (British Columbia);

“**SEDAR**” means System for Electronic Document Analysis and Retrieval;

“**Share Exchange Agreement**” means the agreement dated December 24, 2018, as amended and restated on February 26, 2019, made among Zara, Zara Subco, Blacklist, Blacklist Finco, Blacklist Shareholders and Blacklist Debentureholders;

“**Staff Notice 51-352**” has the meaning ascribed to such term in Section 4.3 of this Listing Statement;

“**Subscription Receipt Agent**” means Odyssey Trust Company, in its capacity as the subscription receipt agent pursuant to the Subscription Receipt Agreement;

“**Subscription Receipt Agreement**” means the Subscription Receipt Agreement among Blacklist, Blacklist Finco and Subscription Receipt Agent made as of November 26, 2018;

“**Subscription Receipt Financing**” means the equity financing of Blacklist Finco completed on November 26, 2018 and December 4, 2018 raising gross proceeds of \$7,140,073 through the issuance of Subscription Receipts at \$0.50 per Subscription Receipt;

“**Subscription Receipts**” means the subscription receipts of Blacklist Finco issued under the Subscription Receipt Agreement whereby each such Subscription Receipt entitles the holder thereof to receive, without payment of additional consideration or taking of further action, one common share of Blacklist Finco upon satisfaction of the Escrow Release Conditions;

“**THC**” means tetrahydrocannabinol;

“**Termination Date**” means April 30, 2019, or such later date as may be agreed in writing between Zara and Blacklist;

“**Transaction**” means the (i) Consolidation; (ii) Conversion of Subscription Receipts; (iii) Amalgamation; (iv) Acquisition; and (v) CSE Listing;

“**United States**” means the United States of America, its territories and possessions, any state of the United States and the District of Columbia;

“**USAM**” has the meaning set ascribed to such term in Section 4.3 of this Listing Statement;

“**Zara**” or the “**Issuer**” means Zara Resources Inc.;

“**Zara Annual MD&A**” means Zara’s MD&A for the year ended July 31, 2018;

“**Zara Annual Financial Statements**” means the audited statement of financial position of Zara as at July 31 2018 and 2017 and the statements of comprehensive loss, changes in shareholders’ equity (deficiency), and cash flows for the years then ended;

“**Zara Interim MD&A**” means Zara’s MD&A for the period ended October 31, 2018;

“**Zara Option Plan**” has the meaning set out to such term in Section 10.1 of this Listing Statement;

“**Zara Options**” has the meaning set out to such term in Section 10.1 of this Listing Statement;

“**Zara Shareholders**” means the holders of Zara Shares;

“**Zara Shares**” means the common shares without par value in the capital of Zara;

“**Zara Subco**” means 1185669 B.C. Ltd.;

“**Zara Interim Financial Statements**” means the unaudited three month period ended October 31, 2018 and the statements of comprehensive loss, changes in shareholders’ equity (deficiency), and cash flows for the period then ended; and

“**2014 Cole Memo**” has the meaning set out to such term in Section 4.3 of this Listing Statement.

1. INTRODUCTION

1.1 General Matters

This Listing Statement was furnished by and on behalf of the management of Zara in order to qualify for listing of the securities of the Issuer following a fundamental change under the Policies of the CSE

The information contained or referred to in this Listing Statement with respect to Blacklist and its related business and subsidiaries has been provided by the management of Blacklist. Zara has reviewed information and documents provided by Blacklist, including audited financial statements of Blacklist. Management and directors of Zara have relied upon Blacklist for the accuracy of the information provided by Blacklist.

1.2 Documents Incorporated by Reference

Information has been incorporated by reference in this Listing Statement from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Chief Executive Officer of Zara at 488 – 1090 West Georgia Street, Vancouver, BC V6E 3V7, and are also available electronically under Zara’s SEDAR profile at www.sedar.com.

1.3 Forward-Looking Statements

Certain statements contained or incorporated by reference in this Listing Statement are forward-looking statements, including, but not limited to, those relating to the Transaction, information concerning the Zara, Blacklist and the Resulting Issuer, and other statements that are not historical facts. These statements are based upon certain material factors, assumptions and analyses that were applied in drawing a conclusion or making a forecast or projection, including Zara’s and Blacklist’s experience and perceptions of historical trends, current conditions and expected future developments, as well as other factors that are believed to be reasonable in the circumstances.

Forward-looking statements are provided for the purpose of presenting information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. These statements may include, without limitation, statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, milestones, strategies and outlook of the Resulting Issuer, including but not limited to those statements under the headings “*General Development of the Business*”, “*Narrative Description of the Business*”, and “*Risk Factors*”. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as “pro forma”, “expects”, “anticipates”, “plans”, “believes”, “estimates”, “intends”, “targets”, “projects”, “forecasts”, “seeks”, “likely” or negative versions thereof and other similar expressions, or future or conditional verbs such as “may”, “will”, “should”, “would” and “could”. Examples of the assumptions underlying the forward-looking statements contained herein include, but are not limited to those related to: the receipt of all necessary consents and approvals (including, without limitation, CSE and regulatory) for the Transaction, the ability of

Zara or the Resulting Issuer to obtain necessary financing to pursue its business plans, the achievement of goals, the obtaining of all necessary permits and governmental approvals, as well as expectations regarding availability of equipment, skilled labour and services needed for the Resulting Issuer's operations, intellectual property rights, development, operating or regulatory risks, trends and developments in the cannabis industry, business strategy and outlook, expansion and growth of business and operations:

- the timing and amount of capital expenditures;
- future exchange rates;
- the impact of increasing competition;
- conditions in general economic and financial markets;
- access to capital;
- future operating costs;
- government regulations, including future legislative and regulatory developments involving medical and recreational marijuana and the timing thereto;
- the effects of regulation by governmental agencies;
- the anticipated changes to laws regarding the recreational use of cannabis;
- the demand for cannabis products and corresponding forecasted increase in revenues; and
- the size of the medical marijuana market and the recreational marijuana market.

Other assumptions on which the forward-looking information contained herein is predicated are set out in this Listing Statement and the documents incorporated by reference herein.

By its nature, forward-looking information is subject to risks and uncertainties, and there are a variety of material factors, many of which are beyond the control of Zara, Blacklist and the Resulting Issuer, that may cause actual outcomes to differ materially from those discussed in the forward-looking statements. These factors include, but are not limited to: completion of the Transaction; limited operating history; reliance on management; additional financing; profitability of the Resulting Issuer; ongoing costs and obligations; competition; future acquisition or disposition; product liability; product recalls; product approvals; promotion and maintenance of brands; dependence on suppliers and skilled labour; management of growth; intellectual property risks; security breaches; client acquisitions; changes in laws, regulations and guidelines; constraints on marketing products; uncertainty surrounding existing protection from U.S. federal prosecution; cannabis continues to be illegal under U.S. federal law; volatility in the market price of the Resulting Issuer Shares; and management's success in anticipating and managing the foregoing factors, as well as the risks described under "*Risk Factors*" and other risks set out in this Listing Statement and the documents incorporated by reference herein.

These risk factors are not intended to represent a complete list of the risk factors that could affect the Resulting Issuer. Although Zara and Blacklist have attempted to identify in this Listing Statement important factors that could cause actual actions, events or results to differ materially from those described in the forward looking statements included herein, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended, and there can be no assurance that the forward-looking statements in this Listing Statement will prove to be accurate. Accordingly, readers should not place undue reliance on forward-looking statements in this Listing Statement. All of the forward-looking statements made in this Listing Statement are qualified by these cautionary statements.

These forward-looking statements are made as of the date of this Listing Statement and, other than as specifically required by law, Zara, Blacklist and the Resulting Issuer do not assume any obligation to update or revise any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results, or otherwise.

1.4 Information Contained in this Listing Statement

The information contained in this Listing Statement is given as at March 22, 2019, except where otherwise noted and except that information in documents incorporated by reference is given as of the dates noted therein. No person has been authorized to give any information or to make any representation in connection with the Transaction and other matters described herein other than those contained in this Listing Statement and, if given or made, any such information or representation should be considered not to have been authorized by the Zara, Blacklist or the Resulting Issuer.

This Listing Statement does not constitute the solicitation of an offer to purchase, or the making of an offer to sell, any securities or the solicitation of a proxy by any person in any jurisdiction in which such solicitation or offer is not authorized or in which the person making such solicitation or offer is not qualified to do so or to any person to whom it is unlawful to make such solicitation or offer.

Information contained in this Listing Statement should not be construed as personal legal, tax or financial advice to any person and Zara Shareholders are urged to consult their own professional advisors in connection therewith.

Descriptions in this Listing Statement of the terms of the Share Exchange Agreement, the Amalgamation Agreement and other material documents are summaries of the terms of those documents and are qualified in their entirety by such terms. You should refer to the full text of each of these documents for complete details of the same. The full text of the Share Exchange Agreement, the Amalgamation Agreement and all other material documents are available on Zara's SEDAR profile at www.sedar.com and from Zara at 488-1090 West Georgia Street, Vancouver, British Columbia, V6E 3V7.

2. TRANSACTION

2.1 Structure

Acquisition

Under the terms of the Share Exchange Agreement, Zara will acquire 100% of the outstanding Blacklist Shares. Blacklist Shareholders will receive one Resulting Issuer Share for each Blacklist Share and Blacklist Shareholders will become shareholders of Zara.

On December 24, 2018, Zara, Zara Subco, Blacklist, Blacklist Finco, Blacklist Shareholders and Blacklist Debentureholders entered into the Share Exchange Agreement. The Share Exchange Agreement effectively provides for the acquisition of all of the outstanding Blacklist Shares by Zara in a transaction in which Blacklist Shareholders will receive Zara Shares in exchange for their Blacklist Shares, to be completed concurrently with the Amalgamation. As a result of the acquisition of Blacklist, Zara will become the sole registered owner of all of the outstanding Blacklist Shares.

Pursuant to the Share Exchange Agreement, Blacklist Shareholders will receive one Resulting Issuer Share for each Blacklist Share held at the closing of the Acquisition, on a post-Consolidation basis. The Share Exchange Agreement provides that, without action by the holder thereof each Blacklist Warrant shall, upon the Effective Date, become a warrant, as applicable, to purchase Resulting Issuer Shares and the number of Resulting Issuer Shares and the exercise price will be adjusted in accordance with the terms governing the Blacklist Warrants. Subject to the above, the terms and conditions of the Blacklist Warrants in effect on the Effective Date shall continue to govern such Blacklist Warrants following the Effective Date.

It is anticipated that the Acquisition will result in Zara issuing an aggregate of approximately 88,574,574 Resulting Issuer Shares to the Blacklist Shareholders.

Certain of the Resulting Issuer Shares held by the current Blacklist Shareholders will be subject to escrow conditions and applicable resale restrictions as required by applicable securities laws and CSE requirements. See Section 12 – *Escrowed Securities*.

The description of the Share Exchange Agreement in this Listing Statement, is a summary only, is not exhaustive and is qualified in its entirety by reference to the terms of the Share Exchange Agreement, which is available on Zara's SEDAR profile at www.sedar.com and which is incorporated by reference herein.

Amalgamation

Under the terms of the Amalgamation Agreement, as a condition to and to be completed concurrent with the closing of the Acquisition, Zara and Blacklist shall complete the Amalgamation. On December 24, 2018, Zara, Zara Subco, Blacklist and Blacklist Finco entered into the Amalgamation Agreement, as contemplated in the Share Exchange Agreement. The Amalgamation effectively provides a three-cornered amalgamation whereby Zara Subco and Blacklist Finco will amalgamate to form Amalco with holders of Blacklist Finco Shares receiving the Resulting Issuer Shares, on a post-Consolidation basis. As a result of the

amalgamation of Zara Subco and Blacklist Finco, Zara will become the sole registered owner of all the outstanding shares of Amalco.

Pursuant to terms of the Amalgamation Agreement, upon completion of the Amalgamation every one (1) Blacklist Finco Share held by the Blacklist Finco Shareholders will be exchanged for one post-Consolidation Resulting Issuer Share, with an aggregate of 14,280,146 Resulting Issuer Shares being issued. Each Blacklist Finco Share being exchanged under the Amalgamation will be issued upon the Conversion of Subscription Receipts. See Section 2.1 – *The Transaction - Subscription Receipts Financing*.

Following the completion of the Transaction, the Resulting Issuer intends to wind-down Amalco.

The description of the Amalgamation Agreement in this Listing Statement is a summary only, is not exhaustive and is qualified in its entirety by reference to the terms of the Amalgamation Agreement, which is available on Zara's SEDAR profile at www.sedar.com and which is incorporated by reference herein.

Financings

Subscription Receipt Financing

Prior to entering into the Share Exchange Agreement, Blacklist Finco, a wholly-owned subsidiary of Blacklist, completed a non-brokered private placement of Subscription Receipts at a price of \$0.50 per Subscription Receipt for total gross proceeds of \$7,140,073. Each Subscription Receipt entitles the holder to receive, without payment of additional consideration or taking of further action, one Blacklist Finco Share upon the occurrence of the Escrow Release Conditions, with each such Blacklist Finco Share to be then immediately exchanged in accordance with the terms of the Amalgamation Agreement at an exchange ratio of one Blacklist Finco Share for one post-Consolidation Resulting Issuer Share. The Subscription Receipt Financing closed in two tranches: (i) the first tranche closed on November 26, 2018 for total gross proceeds of approximately \$4,055,000; and (ii) the second tranche closed on December 4, 2018 for total gross proceeds of \$3,085,073.

The gross proceeds from the Subscription Receipt Financing have been deposited with the Subscription Receipt Agent in escrow (the “**Escrowed Proceeds**”) pursuant to the Subscription Receipt Agreement. The Escrowed Proceeds will be released by the Subscription Receipt Agent to Blacklist upon receipt of a notice (the “**Release Notice**”) to the Subscription Receipt Agent from Blacklist on or prior to 5:00 pm (Toronto time) on March 26, 2019 (as the same may be extended in accordance with the terms of the Subscription Receipt Agreement) (the “**Termination Time**”) indicating: (a) the completion or satisfaction, as the case may be, of all conditions precedent to the Acquisition shall have occurred, been satisfied or been waived, other than the issuance of the consideration contemplated by the Acquisition or the filing of the articles of amalgamation or other applicable documentation as may be required pursuant to corporate law; and (b) the receipt of all required shareholder, third party and regulatory approvals in connection with the Acquisition, including the conditional approval of the listing of the Resulting Issuer Shares on the CSE ((a) and (b) together, the “**Escrow Release Conditions**”). Upon and subject to the receipt by the Subscription Receipt Agent of the Release Notice the Escrowed Proceeds shall be released to Blacklist and the holders of Subscription Receipts will be issued

Blacklist Finco Shares, which are to be then exchanged for Resulting Issuer Shares upon completion of the Acquisition.

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

Debenture Financing

Blacklist has also completed non-brokered private placements of convertible debentures of Blacklist (the “**Blacklist Debentures**”) for total gross proceeds of approximately \$4,969,408 (the “**Debenture Financing**”). The Blacklist Debentures bear interest at a rate of 0% per annum payable, maturing two years from the date of issuance, provided that if the Transaction is not completed then the Blacklist Debentures will no longer be convertible, will bear interest at a rate of 9.0%, accruing three months after the date of the termination of the Transaction, and mature one year from the date of issuance.

In accordance with terms of the Blacklist Debentures, the Blacklist Debentures are automatically convertible into Blacklist Shares at a conversion price of: (i) with respect to \$735,000 of the Blacklist Debentures, \$0.035 per Blacklist Share; (ii) with respect to \$1,265,000 of the Blacklist Debentures, \$0.25 per Blacklist Share; (iii) with respect to \$1,200,000 of the Blacklist Debentures, \$0.40 per Blacklist Share; and (iv) with respect to \$1,719,408 of the Blacklist Debentures, \$0.50 per Blacklist Share upon satisfaction or waiver of the conditions precedent to the Transaction, all upon and subject to the terms and conditions set forth in the Blacklist Debenture. Each Blacklist Share will then be exchanged for one Resulting Issuer Share pursuant to the terms of the Transaction, as contemplated in the Share Exchange Agreement. The Blacklist Debentures are secured by a general security agreement.

Certain of the Resulting Issuer Shares issued to former Blacklist Debentureholders upon the completion of the Transaction will be subject to a contractual hold period. In particular, 4,800,000 Resulting Issuer Shares will be subject to a hold period until April 18, 2019, 10,500,000 Resulting Issuer Shares will be subject to a hold period until July 22, 2019, and 5,250,000 Resulting Issuer Shares will be subject to a hold period until December 22, 2019.

Additional Financing

On February 28, 2019, Blacklist completed a loan transaction whereby a lender (the “**Lender**”) loaned to Blacklist CAD\$2.5 million at an annual interest rate of 17% (the “**Loan**”). The Loan is due one calendar year following the date the Loan was issued. The Loan is subject to mandatory prepayment in the event Blacklist completes either an initial public offering of the Blacklist Shares or a reverse take-over transaction with a Canadian public company. Blacklist intends to immediately repay the Loan and all accrued and unpaid interest upon the release from escrow of the proceeds of the Subscription Receipt Financing. The Loan is secured by a general security agreement. In addition, upon full payment of the Loan, Blacklist is obligated to issue to the Lender 2,000,000 non-transferable Blacklist Share purchase warrants (the “**Loan Warrants**”). Each Loan Warrant would be exercisable at \$0.55 per Blacklist Share for a period of one year from the date of issuance. In accordance with the Share Exchange Agreement, upon closing of

the Transaction, the Loan Warrants will represent only a right to purchase on exercise in accordance with its terms one Resulting Issuer Share per Loan Warrant at \$0.55 per Zara Share. The term to expiry, conditions to and manner of exercise and other terms and conditions of the Loan Warrants would remain the same with respect to the right to purchase the Resulting Issuer Shares accordingly.

Consolidation

Prior to Closing, Zara will consolidate its issued and outstanding share capital at a ratio of 35.9389 pre-Consolidation Zara Shares for one post-Consolidation Zara Share. The Zara Shares to be issued in connection with the Transaction will be issued on a post-Consolidation basis.

Transaction Fees

In connection with the Transaction, Zara will issue 5,250,000 Resulting Issuer Shares to the Finders at a deemed price of \$0.50 per Zara Share as finder's fees and will be subject to a contractual hold period until September 22, 2019.

The Transaction is not a Related Party Transaction or Business Combination. As a result, the Transaction is not subject to Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions*.

2.2 Conditions to Closing the Transaction and Required Approvals

The Transaction is subject to a number of approvals and conditions prior to its implementation, including, but not limited to the following:

- (a) all the conditions precedent to the completion of the Amalgamation as set forth in the Amalgamation Agreement shall have been met other than the conditions precedent which are part of the Acquisition as outlined in the Share Exchange Agreement and the filing of the articles of amalgamation or other applicable documentation as may be required pursuant to corporate law;
- (b) the Amalgamation shall be completed concurrently with the transactions contemplated in the Share Exchange Agreement;
- (c) the Consolidation shall have been completed and if necessary, approved by Zara Shareholders;
- (d) there shall be no action taken under any applicable law by any court or government authority that makes it illegal or restrains, enjoins or prohibits the Transaction, results in the judgment or assessment of damages relating to the Transaction that is materially adverse to Zara or Blacklist or that could reasonably be expected to impose any condition or restriction upon Zara or Blacklist which, after giving effect to the Transaction, would so materially and adversely impact the economic or business benefits of the Transaction as to render inadvisable the consummation of the Transaction;
- (e) there shall be no legislation (whether by statute, regulation, order-in-council, notice or ways and means motion, by-law or otherwise) enacted, introduced or tabled

which, in the opinion of Zara or Blacklist, acting reasonably, adversely affects or may adversely affect the Transaction;

- (f) the Closing Date shall be on or before the Termination Date;
- (g) receipt of the approval of Zara Shareholders for the Transaction;
- (h) receipt of executed consents from certain securityholders of Blacklist;
- (i) none of Blacklist, the Blacklist Shareholders, Zara or Zara Subco having violated the covenants set out in the Share Exchange Agreement;
- (j) the representations and warrants of Blacklist, Blacklist securityholders, Zara and Zara Subco are set forth in the Share Exchange Agreement remain true and correct in all respects (in the case of any representation or warranty containing any materiality or material adverse effect qualifier) or in all material respects (in the case of any representation or warranty without any materiality or material adverse effect qualifier), except as affected by the transactions contemplated by the Share Exchange Agreement;
- (k) there shall not have been after the date of the Share Exchange Agreement any material adverse effect with respect to Blacklist, Zara or Zara Subco;
- (l) the Zara Board has not withdrawn or modified its recommendation to the Zara Shareholders to vote in favour of the resolution approving the Transaction;
- (m) Zara will meet the minimum listing requirements, as outlined in Policy 2 Qualifications for Listing of the CSE;
- (n) the approval of Blacklist Shareholders for the Transaction, if required;
- (o) the election and appointment of certain directors and officers of the Resulting Issuer;
- (p) all terms, conditions and covenants set forth in the Share Exchange Agreement having been compiled with or performed by or waived by the appropriate party; and
- (q) the receipt of all necessary corporate, regulatory and third-party approvals including the approval of CSE, and compliance with all applicable regulatory requirements and conditions in connection with the Transaction.

2.3 The Resulting Issuer

Following the completion of the Transaction, Blacklist will be a wholly-owned subsidiary of the Resulting Issuer. The former Blacklist Shareholders and former Blacklist Finco Shareholders will own approximately 94.8% of the Resulting Issuer Shares and current Zara Shareholders and Finders will hold approximately 5.2% of the Resulting Issuer Shares.

Following completion of the Transaction, it is expected that 108,436,715 Resulting Issuer Shares will be outstanding, without giving effect to warrants to purchase 19,726,580 Resulting Issuer Shares pursuant to the outstanding Blacklist Warrants, Blacklist Finco Warrants, Finder's Warrants and Loan Warrants.

The Resulting Issuer will be engaged in the business of Blacklist as described in this Listing Statement. See "*Narrative Description of the Business – Blacklist*".

The board of directors of the Resulting Issuer is expected to be comprised of the following seven persons: John P. Gorst, Andrew W. Schell, Bryen J. Salas, Christian D. Struzan, Austin Gorst, M. Carroll Benton and Brian Lofquist.

The officers of the Resulting Issuer are expected to be as follows:

<u>Name</u>	<u>Office</u>
John P. Gorst	Chief Executive Officer
Andrew W. Schell	Chief Strategies Officer
Bryen J. Salas	President
Christian D. Struzan	Chief Marketing Officer
Austin Gorst	Vice President
Scott M. Manson	Chief Financial Officer

The registered and records office of the Resulting Issuer will be at Suite 488 – 1090 West Georgia Street, Vancouver, BC V6E 3V7. The Resulting Issuer intends to have the name "Ionic Brands Corp."

3. CORPORATE STRUCTURE

3.1 Corporate Name

Zara

The full corporate name of Zara is "Zara Resources Inc." The principal and registered office of Zara is Suite 488 – 1090 West Georgia Street, Vancouver, BC, V6E 3V7.

Blacklist

The full corporate name of Blacklist is "Blacklist Holdings, Inc.". The principal and registered office of Blacklist is 1142 Broadway, Suite 300, Tacoma, Washington 98402.

Resulting Issuer

The Resulting Issuer is intended to be named "Ionic Brands Corp." and will have its registered office located at Suite 488 – 1090 West Georgia Street, Vancouver, BC V6E 3V7.

3.2 Incorporation

Zara

Zara was incorporated on October 9, 2012 under the *Business Corporations Act* (Ontario) under the name “Zara Resources Inc.” On July 3, 2013, Zara received its Certificate of Continuation and is now a company governed under the BCBCA. Zara is a reporting issuer in British Columbia, Alberta and Ontario listed on the CSE under the symbol “ZRI”.

Blacklist

Blacklist was incorporated on February 26, 2014 under the laws of the state of Washington under the name “Ionic, Inc.”. On May 26, 2016, it changed its name to “The Blacklist Syndicate, Inc.”. On August 9, 2016, it changed its name to “Blacklist Partners, Corp.”. On August 30, 2016, it changed its name to “Blacklist Holdings, Inc.”. The principal and registered office of Blacklist is 1142 Broadway, Suite 300, Tacoma, Washington 98402.

The Resulting Issuer

The Resulting Issuer will be governed by the BCBCA and will be a reporting issuer in the Provinces of British Columbia, Alberta and Ontario.

3.3 Intercorporate Relationships

Zara

1185669 B.C. Ltd. is a wholly-owned subsidiary of Zara that was incorporated under the BCBCA on November 5, 2018.

Blacklist

Blacklist Finco Inc. is a wholly-owned subsidiary of Blacklist that was incorporated under the BCBCA on October 18, 2018.

3.4 Fundamental Change or Acquisition

Zara is requalifying following the Transaction. The following chart illustrates the intercorporate relationship that is in place as of the closing of the Transaction:



Please refer to Section 2 – *The Transaction* for a detailed description of the Transaction.

3.5 Non-Corporate Issuers or Issuers Incorporated Outside of Canada

Not applicable.

4. GENERAL DEVELOPMENT OF THE BUSINESS

4.1 General Business

Zara

Zara was initially focused on the acquisition, evaluation and exploration of mineral resource properties, but in 2017 Zara decided to seek potential opportunities in different sectors to increase shareholder value.

On January 7, 2013, the Issuer acquired 100% of 28 Pigeon River claims located in Ontario (the “**Pigeon River Property**”) from Pele Mountain Resources Inc. (“**Pele**”) for a purchase price of \$700,000. The purchase price was paid by the issuance of 225,000 Zara Shares at a fair value of \$1.00 per share and 475,000 non-voting 5% convertible Series B preferred shares of the Issuer at a fair value of \$1.00 per share. The Pigeon River Property is also subject to a 2% net smelter return royalty of which 0.5% is granted to Pele and 1.5% is granted to 2212150 Ontario Inc. (operating as Vanex Exploration). During the year ended July 31, 2014, management made the decision to abandon 20 of the Pigeon River claims. During the year ended July 31, 2015, the Issuer allowed seven out of eight claims to lapse. On April 10, 2015, the Issuer sold a 25% interest in its Pigeon River Property mining claim to Hadley Mining Inc. for the sum of \$9,000. On January 19, 2016, the Issuer sold a 25% interest in its Pigeon River mining claim to Winston Resources Inc. for the sum of \$9,000. The Issuer now has a 50% interest in Pigeon River Property which consists of a single mining claim.

On April 21, 2013, Zara acquired a license to explore the Forge Lake Gold Project located 32km northwest of Wawa, Ontario (the “**Forge Lake Property**”) from Hudson River Minerals Ltd. (“**HRM**”) for \$583,010. HRM was a party to a Mineral Exploration Agreement with 3011650 Nova Scotia Ltd. dated November 1, 2011 and on April 21, 2013, HRM assigned all its rights and interest under the Mineral Exploration Agreement to Zara. During the year ended July 31, 2015, management determined that the Issuer did not have the financing to further the Forge Lake Property.

On April 13, 2017 Zara announced that it had entered into a definitive agreement for the acquisition by Zara of all the issued share capital of the electric car business Fox Automotive Switzerland AG, Magnum Pirex AG and its subsidiary Magnum Courb SAS (the “**Fox Agreement**”). The terms of the Fox Agreement were subsequently modified to remove Magnum Pirex AG and its subsidiary Magnum Courb SAS as part of the acquisition under the Fox Agreement.

On September 19, 2017, Zara signed a letter of intent which defines the essential terms under which the parties, subsequent to and conditional upon the closing of the Fox Agreement,

intended to enter into a definitive agreement for the acquisition by Zara of all the issued and outstanding shares of Magnum Korea Ltd. (the “**Magnum LOI**”).

The Issuer announced on February 6, 2018 that it would no longer proceed with the acquisition of all the issued and outstanding shares of Fox Automotive Switzerland AG and has terminated the Fox Agreement. In addition, the Issuer announced that it would not proceed with the acquisition of Magnum Korea Ltd. pursuant to a Magnum LOI.

On December 24, 2018, the Issuer entered into the Share Exchange Agreement. Please refer to Section 2 – *The Transaction* for a detailed description of the Transaction.

Blacklist

Blacklist Holdings, Inc. was established on February 26, 2014 as a Washington C Corporation formed in Gig Harbor, Washington. Its primary business involves providing activities ancillary to the cannabis production and processing industry in the states of Washington, Oregon and California. This includes providing services and non-cannabis material, the leasing of production equipment and the licensing of intellectual property. In addition, Blacklist also derives revenue from providing operating and marketing support, consulting, advisory fees, branded containers, packaging and labeling, and leasing transportation equipment to licensed cannabis entities. Blacklist is not directly engaged in the manufacture, importation, possession, use, sale or distribution of cannabis in the recreational or medical marketplace in the United States.

Blacklist began operations in September 2015 in Washington State and relocated its corporate headquarters to Tacoma, Washington. Since then Blacklist has experienced rapid growth. Blacklist now has offices in Washington, Oregon and California.

In 2018, Blacklist completed the Subscription Receipt Financing and the Debenture Financing. See Section 2 – *The Transaction*.

4.2 Significant Acquisitions and Dispositions

Zara

Zara did not complete any significant acquisitions or dispositions during the current financial year.

Blacklist

Blacklist did not complete any significant acquisitions or dispositions during the current financial year.

4.3 Trends, Commitments, Events or Uncertainties

The most significant trends and uncertainties which management expects could impact its business and financial condition are (i) the changing legal and regulatory regime which regulates the production and sale of cannabis and cannabis related product; (ii) the ability of companies who may receive funds from the sale of cannabis and cannabis related products to adequately track and legally transfer such funds; and (iii) the ability of companies to raise adequate capital to carry out their business objectives. See Section 18 - *Risk Factors*.

Regulatory Overview

In accordance with the Canadian Securities Administrators Staff Notice 51-352 (Revised) – *Issuers with U.S. Marijuana-Related Activities* (“**Staff Notice 51-352**”), as published on October 16, 2017 and as revised on February 8, 2018, below is a discussion of the current federal and state-level U.S. regulatory regimes in those jurisdictions where Blacklist has operations. In accordance with Staff Notice 51-352, Blacklist will evaluate, monitor and reassess this disclosure, and any related risks, on an ongoing basis and the same will be supplemented, amended and communicated to investors in public filings, including in the event of government policy changes or the introduction of new or amended guidance, laws or regulations regarding cannabis regulation.

Table of Concordance

In accordance with Staff Notice 51-352, below is a table of concordance that is intended to assist readers in identifying those parts of this Listing Statement that address the disclosure expectations outlined in Staff Notice 51-352.

Industry Involvement	Specific Disclosure Necessary to Fairly Present all Material Facts, Risks and Uncertainties	Listing Statement Cross Reference
All Issuers with U.S. Marijuana-Related Activities	Describe the nature of the issuer’s involvement in the U.S. marijuana industry and include the disclosures indicated for at least one of the direct, indirect and ancillary industry involvement types noted in this table.	<p><i>Section 4 – General Development of the Business</i></p> <p><i>Section 5 – Narrative Description of the Business</i></p> <p><i>Section 5 – Market Overview</i></p> <p><i>Section 5 – Summary of the Resulting Issuer’s U.S. Cannabis Activity</i></p>
	Prominently state that marijuana is illegal under U.S. federal law and that enforcement of relevant laws is a significant risk.	<i>Cover Page (disclosure in bold typeface)</i>
	Discuss any statements and other available guidance made by federal authorities or prosecutors regarding the risk of enforcement action in any jurisdiction where the issuer conducts U.S. marijuana-related activities.	<p><i>Section 4.3 - Regulatory Overview – U.S. Federal Law Overview</i></p> <p><i>Section 4.3 – Regulatory Overview – Enforcement of Federal Laws</i></p> <p><i>Section 18 – Risk Factors – Risks Specifically Related to the United States</i></p>
	Outline related risks including, among others, the risk that third party service providers could suspend or withdraw services and the risk that regulatory bodies could impose certain restrictions on the issuer’s ability to operate in the	<p><i>Section 18 – Risk Factors – Ongoing Costs and Obligations</i></p> <p><i>Section 18 – Risk Factors – Product Liability</i></p> <p><i>Section 18 – Risk Factors – Product Recalls</i></p>

Industry Involvement	Specific Disclosure Necessary to Fairly Present all Material Facts, Risks and Uncertainties	Listing Statement Cross Reference
	U.S.	<p><i>Section 18 – Risk Factors – Financial Projections May Prove Materially Inaccurate or Incorrect</i></p> <p><i>Section 18 – Risk Factors – Changes in Laws, Regulations and Guidelines</i></p> <p><i>Section 18 – Risk Factors – Constraints on Marketing Products</i></p> <p><i>Section 18 – Risk Factors – Reliance on Third-Party Suppliers, Manufacturers and Contractors</i></p> <p><i>Section 18 – Risk Factors – Environmental Risk and Regulation</i></p> <p><i>Section 18 – Risk Factors – Risks Specifically Related to the United States</i></p>
	Given the illegality of marijuana under U.S. federal law, discuss the issuer’s ability to access both public and private capital and indicate what financing options are / are not available in order to support continuing operations.	<p><i>Section 5 – Narrative Description of the Business – Total Funds Available</i></p> <p><i>Section 5 – Narrative Description of the Business – Ability to Access Public and Private Capital</i></p> <p><i>Section 18 – Risk Factors – Negative Impact of Regulatory Scrutiny on Raising Capital</i></p>
	Quantify the issuer’s balance sheet and operating statement exposure to U.S. marijuana-related activities.	<i>Section 5 – Narrative Description of Business – Summary of the Blacklist’s U.S. Cannabis Activity</i>
	Disclose if legal advice has not been obtained, either in the form of a legal opinion or otherwise, regarding (a) compliance with applicable state regulatory frameworks and (b) potential exposure and implications arising from U.S. federal law.	Legal advice has not been obtained.
U.S. Marijuana Issuers with direct involvement in cultivation or distribution	Outline the regulations for U.S. states in which the issuer operates and confirm how the issuer complies with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state.	N/A
	Discuss the issuer’s program for monitoring compliance with U.S. state law on an ongoing basis,	N/A

Industry Involvement	Specific Disclosure Necessary to Fairly Present all Material Facts, Risks and Uncertainties	Listing Statement Cross Reference
	outline internal compliance procedures and provide a positive statement indicating that the issuer is in compliance with U.S. state law and the related licensing framework. Promptly disclose any non-compliance, citations or notices of violation which may have an impact on the issuer's license, business activities or operations.	
U.S. Marijuana Issuers with indirect involvement in cultivation or distribution	Outline the regulations for U.S. states in which the issuer's investee(s) operate.	N/A
	Provide reasonable assurance, through either positive or negative statements, that the investee's business is in compliance with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state. Promptly disclose any non compliance, citations or notices of violation, of which the issuer is aware, that may have an impact on the investee's license, business activities or operations.	N/A
U.S. Marijuana Issuers with material ancillary involvement	Provide reasonable assurance, through either positive or negative statements, that the applicable customer's or investee's business is in compliance with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state.	<i>Section 5 – Narrative Description of Business – Summary of the Blacklist's U.S. Cannabis Activity</i>

United States Federal Overview

General

In the United States, twenty-nine states, Washington D.C. and Puerto Rico have legalized medical marijuana, and nine states and Washington D.C. have legalized recreational marijuana. At the federal level, however, cannabis currently remains a Schedule I drug under the Controlled Substances Act of 1970. Under United States federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. As such, cannabis related practices or activities, including without limitation, the manufacture, importation, possession, use, or distribution of cannabis, remain illegal under United States federal law.

Although federally illegal, the U.S. federal government's approach to enforcement of such laws has of least until recently trended toward non-enforcement. On August 29, 2013, the U.S. Department of Justice ("DOJ") issued a memorandum known as the "**Cole Memorandum**" to all U.S. Attorneys' offices (federal prosecutors). The Cole Memorandum generally directed U.S. Attorneys not to prioritize the enforcement of federal marijuana laws against individuals and businesses that rigorously comply with state regulatory provisions in states with strictly regulated medical or recreational cannabis programs. While not legally binding, and merely prosecutorial guidance, the Cole Memorandum laid a framework for managing the tension between state and federal laws concerning state regulated marijuana businesses.

However, on January 4, 2018 the Cole Memorandum was revoked by Attorney General Jeff Sessions, a long-time opponent of state-regulated medical and recreational cannabis. While this did not create a change in federal law, as the Cole Memorandum was not itself law, the revocation removed the DOJ's guidance to U.S. Attorneys that state regulated cannabis industries substantively in compliance with the Cole Memorandum's guidelines should not be a prosecutorial priority.

In addition to his revocation of the Cole Memorandum, Attorney General Sessions also issued a one-page memorandum known as the "**Sessions Memorandum**." The Sessions Memorandum confirmed the rescission of the Cole Memorandum and explained the rationale of the DOJ in doing so: the Cole Memorandum, according to the Sessions Memorandum, was "unnecessary" due to existing general enforcement guidance adopted in the 1980s, as set forth in the U.S. Attorney's Manual (the "**USAM**"). The USAM enforcement priorities, like those of the Cole Memorandum, are also based on the federal government's limited resources, and include "law enforcement priorities set by the Attorney General," the "seriousness" of the alleged crimes, the "deterrent effect of criminal prosecution," and "the cumulative impact of particular crimes on the community."

While the Sessions Memorandum emphasizes that marijuana is a Schedule I controlled substance, and reiterates the statutory view that cannabis is a "dangerous drug and that marijuana activity is a serious crime," it does not otherwise indicate that the prosecution of marijuana-related offenses is now a DOJ priority. Furthermore, the Sessions Memorandum explicitly describes itself as a guide to prosecutorial discretion. Such discretion is firmly in the hands of U.S. Attorneys in deciding whether to prosecute marijuana-related offenses. Our outside U.S. counsel continuously monitors all U.S. Attorney comments related to regulated medical and adult-use cannabis laws to assess various risks and enforcement priorities within each jurisdiction. Dozens of U.S. Attorneys across the country have affirmed that their view of federal enforcement priorities has not changed, although a few have displayed greater ambivalence. In California, at least one U.S. Attorney has made comments indicating a desire to enforce the Controlled Substances Act: Adam Braverman, Interim U.S. Attorney for the Southern District of California, has been viewed as a potential enforcement hawk after stating that the rescission of the Cole Memorandum "returns trust and local control to federal prosecutors" to enforce the Controlled Substances Act. Additionally, Greg Scott, the Interim U.S. Attorney for the Eastern District of California, has a history of prosecuting medical cannabis activity: his office published a statement that cannabis remains illegal under federal law, and that his office would "evaluate violations of those laws in accordance with our district's federal law enforcement priorities and resources."

It is too soon to determine what prosecutorial effects will be created by the rescission of the Cole Memorandum. While initial fears of a nationwide “crackdown” have not yet materialized, considerable uncertainty remains.

Regardless, marijuana remains a Schedule I controlled substance at the federal level, and neither the Cole Memorandum nor its rescission has altered that fact. The federal government of the United States has always reserved the right to enforce federal law in regard to the sale and disbursement of medical or recreational marijuana, even if state law sanctioned such sale and disbursement. From a regulatory and enforcement perspective, the criminal risk today remains identical to the risk on January 3, 2018. It remains unclear whether the risk of enforcement has been altered.

Additionally, under U.S. federal law it may potentially be a violation of federal money laundering statutes for financial institutions to take any proceeds from marijuana sales or any other Schedule I substance. Canadian banks are also hesitant to deal with cannabis companies, due to the uncertain legal and regulatory framework of the industry. Banks and other financial institutions could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses. Under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering or conspiracy. Despite these laws, the U.S. Department of the Treasury issued a memorandum in February of 2014 (the “**FinCEN Memorandum**”) outlining the pathways for financial institutions to bank state-sanctioned marijuana businesses. Under these guidelines, financial institutions must submit a “suspicious activity report” (“**SAR**”) as required by federal money laundering laws. These marijuana related SARs are divided into three categories: marijuana limited, marijuana priority, and marijuana terminated, based on the financial institution’s belief that the marijuana business follows state law, is operating out of compliance with state law, or where the banking relationship has been terminated.

On the same day the FinCEN Memorandum was published, the DOJ issued a memorandum (the “**2014 Cole Memo**”) directing prosecutors to apply the enforcement priorities of the Cole Memorandum in determining whether to charge individuals or institutions with crimes related to financial transactions involving the proceeds of marijuana-related conduct. The 2014 Cole Memo has been rescinded as of January 4, 2018, along with the Cole Memorandum, removing guidance that enforcement of applicable financial crimes was not a DOJ priority.

However, Attorney General Sessions’ revocation of the Cole Memorandum and the 2014 Cole Memo has not affected the status of the FinCEN Memorandum, nor has the Department of the Treasury given any indication that it intends to rescind the FinCEN Memorandum itself. Though it was originally intended for the 2014 Cole Memo and the FinCEN Memorandum to work in tandem, the FinCEN Memorandum can act as a standalone document which explicitly lists the eight enforcement priorities originally cited in the Cole Memorandum. As such, the FinCEN Memorandum remains intact.

Enforcement of Federal Laws

For the reasons set forth above, Blacklist's existing operations in the United States, and any future investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, Blacklist may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on Blacklist's ability to operate in the United States or any other jurisdiction. See "*Risk Factors*".

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of medical cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical cannabis, thereby limiting the number of new state jurisdictions into which Blacklist could expand. Any inability to fully implement Blacklist's expansion strategy may have a material adverse effect on Blacklist's business, financial condition and results of operations. See "*Risk Factors*".

Further, violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on Blacklist, including its reputation and ability to conduct business, its holding (directly or indirectly) of medical cannabis licenses in the United States, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for Blacklist to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial. See "*Risk Factors*".

Enforcement Proceedings

Although the Cole Memorandum and 2014 Cole Memo have been rescinded, the United States Congress has repeatedly enacted legislation to protect the medical marijuana industry from prosecution. The United States Congress has passed appropriations bills each of the last three years that included the Rohrabacher Amendment Title: H.R.2578 — Commerce, Justice, Science, and Related Agencies Appropriations Act, 2016, which by its terms does not appropriate any federal funds to the U.S. DOJ for the prosecution of medical cannabis offenses of individuals who are in compliance with State medical cannabis laws. Subsequent to the issuance of the Sessions Memorandum on January 4, 2018, the United States Congress passed its omnibus appropriations bill, SJ 1662, which for the fourth consecutive year contained the Rohrabacher-Blumenauer Amendment language (the "**Leahy Amendment**") and continued the protections for the medical cannabis marketplace and its lawful participants from interference by the DOJ up and through the 2018 appropriations deadline of September 30, 2018. The deadline has passed, but the Leahy Amendment has remained in effect by virtue of a series of short-term spending bills signed on September 28, 2018, December 7, 2018, January 25, 2019 and February

8, 2019. The current short-term spending bill is effective until March 23, 2019, at which time the United States Congress must either pass an omnibus appropriations bill for fiscal year 2019 or pass another short-term spending bill, or it will face another shutdown of the federal government, at which time the Leahy Amendment would no longer be in effect. The Leahy Amendment is currently included in both the House version (referred to therein as the Joyce Amendment) and the Senate version (referred to therein as the Leahy Amendment) of the 2019 omnibus appropriations bill. However, it may or may not be included in the final appropriations package, and its inclusion or non-inclusion, as applicable, is subject to political changes.

5. NARRATIVE DESCRIPTION OF THE BUSINESS

5.1 Description of the Business

Zara

Zara was engaged in the business of the acquisition and exploration of mining properties in Canada, but in 2017 Zara decided to seek potential opportunities in different sectors to increase shareholder value.

Blacklist

Overview of Business

Blacklist's primary business is the provision of services and products ancillary to the cannabis production and processing industry in the states of Washington, Oregon and California. Blacklist is currently not engaged in the manufacture, importation, possession, use, sale or distribution of cannabis. Blacklist delivers comprehensive solutions to licensed cannabis processors and producers which includes the following:

- processing and transportation equipment leasing;
- operating and marketing support;
- licensing of intellectual property; and
- sourcing of devices, packaging and labeling.

Blacklist expects to generate returns from any or all of the following revenue sources: (i) operating support, consulting, licensing and advisory fees from service contracts with certain license holders; and (ii) leasing facilities and equipment to certain licensed cannabis entities.

Blacklist intends to expand to all states in the United States where the sale of cannabis is legal.

The Blacklist extraction, formulations, and post extraction processes are proprietary and held as closely guarded trade secrets. The specific plant-based terpene profiles are never given to any licensed partner whether they are a direct licensed processor or co-packing partner. These processes are licensed to producers and co-packagers. Blacklist has quality control managers in place at each partner processor or co-packager location to guarantee the highest quality standards in the industry to support our brand promises and standards. In addition, Blacklist procures and supplies the vape pens, both refillable and disposable, cartridges, applicators, jars and brand,

packaging and labeling for the licensee. Blacklist's management believes the products are well received in the marketplace and will capture a significant portion of the vape pen and concentrate oil business. The Blacklist brand, IONIC™, and processes were developed for the oil-infused products category in the cannabis industry, which is the fastest growing sector of the industry.¹

Washington

Blacklist currently licenses its intellectual property, leases various equipment and vehicles and sells marketing and packaging supplies to Ionic, Inc. ("**Ionic**"), a Washington corporation holding a processor license from the Washington State Liquor and Cannabis Board. Ionic processes, packages and label marijuana and marijuana-infused products for sale at wholesale to marijuana retailers.

On January 10, 2016, Blacklist entered into a purchase agreement with Ionic, whereby Ionic granted Blacklist a right to acquire all of Ionic's issued and outstanding shares upon meeting certain conditions. Blacklist intends to acquire Ionic when the laws of the state of Washington allows cannabis licenses to be held by non-Washington state residents.

Oregon and California

In the states of Oregon and California, Blacklist contracts with co-packers that are fully licensed and that are in compliance with local and state cannabis regulations to fill, package and distribute IONIC™ branded products in accordance with our strict standard operating procedures.

Offices

We have offices located in Washington, Oregon and California.

Principal Products or Services

Values

Blacklist's product guidelines include:

- packages that elevate the cannabis experience with quality and respectability;
- concentrates that are created using the highest quality ingredients and methods;
- taste and finish that is pleasant consistent and sophisticated; and
- devices that are stylish, discreet, dependable and easy to use.

¹ New Frontier Data, *Washington Liquor Control Board Dataset*, 2016

Product Lines

Blacklist have three key product lines:

- **SOCIAL** – characterized as controlled, sociable, outgoing, conversational, interested, optimistic, open and available. These qualities are most suited to Hybrid strains of cannabis.
- **FOCUS** – characterized as motivated, centered, creative, awake, engaged, captivated, energized, deliberate, and inspired. These qualities are most suited to Sativa strains of cannabis.
- **RELAX** – characterized as lucid, reflective, sleepy, healed, content and contemplative. These qualities are most suited to Indica strains of cannabis.

Cannabis Oil and Concentrates

Blacklist’s cannabis flavor profiles have been created through a scientific process involving the extraction and subsequent addition of different natural terpenes at a molecular level (the “**ION Extraction Method**”). The ION Extraction Method uses hybrid forms and blends that exclude any inert gasses, ethanol extraction, and CO2 supercritical extraction. Waxes and fats are removed to allow for the absolute viscosity when delivered with Blacklist’s proprietary terpene blend. This process is highly complex but can be measured, which enables the licensee to produce a consistent high-quality and scalable product. Many other oil cartridges contain cannabis oil and other carriers such as polyethylene glycol, propylene glycol or vegetable glycerin. Blacklist’s fine tuned treatment process and the quality of raw materials ultimately are what separate the IONIC™ brand from their competitors.²

Blacklist intends to file patent applications for the ION Extraction Method.

The Blacklist process uses the ION Extraction Method to produce cannabis oils and concentrates in a clean and efficient manner. The Blacklist process uses only the highest quality ingredients and methods to craft its signature and proprietary blend, which is three times filtered for extra purity.

Blacklist intends on creating seasonal blends, examples of which may include ‘Pumpkin Spice’ for Thanksgiving and ‘Peppermint’ for Christmas. Blacklist intends to make each seasonal blends contain a flavor profile that is refined and subtle, not overly flavored.

Vaporizers

Blacklist offers two types of vaporizers:

1. *Disposable Cartridges*

- The Ultra-Premium brand of cannabis oil comes in an elegant, easy to use unit. Each vaporizer comes fully charged and pre-filled.

² Marijuana Business Daily, *Marijuana Business Factbook 2016*. Blacklist, Inc. commissioned white paper Zach Bell PHD 2017

- Crafted blend that is three-times filtered for extra purity.
- Easy to take anywhere and ready to use. No chargers, no filling, just breathe

2. *Refillable Cartridges*

- The Ultra-Premium brand of cannabis oil in an elegant, easy to use unit. Each vaporizer comes pre-filled ready for the consumer to attach the battery of their choice.
- Luxurious blend handcrafted and three times filtered for extra purity.
- Easy to take anywhere and ready to use, just attach your battery of choice and go.

Blacklist owns and leases to its licensees glass tank-based disposable marijuana vaporizers with a porous ceramic heating element. With such a device, users can avoid the cotton polyfill vaporizer devices that its competitors use.

Quality Control and Competitive Advantage

Vape pens and cartridge are historically problematic, with many customers complaining of leakage, battery failure, undesirable chemical taste, and harshness. Even the largest brands continue to struggle with quality control issues for both their devices and quality of the oil.

Blacklist's devotion to superior product quality and quality control measures are what separates Blacklist from its competitors (see below "*Resulting Issuer - Competitive Conditions and Position*"). Blacklist sources the highest quality devices, which are uniquely packaged in a reusable base that ensures optimal performance during the life of the products. Additionally, Blacklist leases specialized equipment to highly experienced processors and co-packagers, who collectively produce our proprietary premium formulations. Blacklist also intends to implement measures to receive constant feedback from retailers and consumers concerning any issues with the quality of Blacklist's products.



Licensing

Blacklist licenses to processors and co-packagers its proprietary process of cannabis oil for the recreational and medical concentrates market, with a product line that includes Ultra-Premium CO2 Oil and wax in our Black Line and Pure Line, and distillate oil and wax, all of which are delivered to consumers in discreet, easy-to-use vape pens, cartridges, applicators and jars. Blacklist has quality control managers in place at each partner processor or co-packager location to guarantee the highest quality standards in the industry to support our brand promises and standards. In all markets that we offer the licensed IONIC™ brand, Blacklist supports their marketing operations with deployed market managers and brand ambassadors to secure accounts as well as to assist the retailer with in-store sales. Our commitment to our retailers and consumers remains the same in each and every market. Our brand promise is to deliver, day in and day out, the same consumer experience in each market that we service.

Intellectual Property

Patents

Blacklist owns U.S. Patent No.9565865 entitled “Method for Making Coffee Products Containing Cannabis Ingredients” issued on February 14, 2017, along with all related patents or applications worldwide, presently including U.S. Application No. 15397895 filed on January 4, 2017 and U.S. Application No. 15837623 filed on December 11, 2017. Blacklist’s terpene formulations and distillation processes are closely held and guarded secrets of Blacklist.

Trademarks

Blacklist owns the following trademark:

IONIC

IONIC™ is registered with the United States Patent and Trademark Office under trademark no. 86138972.

Branding and Marketing

Market Differentiation

Blacklist’s marketing strategy and market development plan has been created specifically to reach and resonate with what Blacklist has determined to be its core audience – millions of under-served cannabis users, defined as motivated, productive adults who choose to enjoy cannabis recreationally.

In addition to consumers, retailers are also a crucial component to the customer experience. They are inextricable from the customer experience. Education and awareness of Blacklist’s brand and

product line will predominately be presented by and filtered through what Blacklist sees as the single most powerful tool at our disposal – the ‘Budtender’.

The Budtenders, or 'Sommeliers of Cannabis', are the gateway to new user awareness, education, and conversion. A Budtender is a retailer’s staff member and is trained by Blacklist on the IONIC™ brand. Often, the Budtender is not only the guide for a first-time customer's journey but a trusted source for repeat buyers. They are the primary influencer of what new and repeat customers see and ultimately buy. They provide suggestions and sway opinions as ‘experts’ in the field. For the most part, our core audience does not consider themselves experts on cannabis. They know the experience they desire, but not how to find it amongst the dizzying array of strains and products offered. The Budtender is their personal guide to the discovery of a brand or product that delivers that experience. Meaning that our primary strategy for developing a stable customer base relies on developing a close, expert, trusted relationship with the Budtender community and educating them about IONIC™.

General Tactics

Blacklist intends to implement the following marketing tactics:

- Weekly ‘menu’ updates – sent out to all current clients to keep them updated on the Blacklist’s products.
- Staff Engagement –a way for Blacklist to improve its relationship with the staff or “budtenders” of buyers/vendors who recommend products to customers at their stores. The processor will give each employee a small sample of each product to provide first-hand experience Blacklist’s brands.
- Cannabis Related Events – increase market presence state-wide by attending industry conferences and events.
- Luxury Events (non-cannabis related) – branch outside of the cannabis industry to gain a presence in the global economy.
- Retail Consultations –comprehensive quarterly reviews attended by Blacklist state managers to show support at all key partner accounts.

Key Highlights

The Blacklist brand, IONIC™, is advertised on mainstream cannabis websites, and magazines such as Northwest Leaf, Dope magazine and MG magazine along with other mainstream printed, digital and social media strategies.

Blacklist has already achieved a leadership position in the Washington market for its marketing and branding by its nomination in the Dope Magazine industry awards held in December of 2016 and the eventual award for Best Brand in 2017.

Market Overview

Cannabis Use – Inhalation, Ingestion and Vaping Technology

Cannabis has been used for centuries for its medicinal value. Compounds found within cannabis that may have certain medicinal benefits include cannabinoids, terpenes, and flavonoids. Most cannabis research has focused on two cannabinoids, THCA (delta9-tetrahydrocannabinolic acid) and CBDA (cannabidiolic acid). Cannabis strains with a high ratio of THCA/CBDA are termed marijuana and strains with a low ratio of THCA/CBDA are termed hemp. Once raw plant materials have been harvested and heated, THCA becomes THC (delta-9-tetrahydrocannabinol), and CBDA becomes CBD via decarboxylation (heat processed) making them biologically active. Oral consumption of cannabis involves liver metabolism, which reduces the bioavailability of cannabis compounds and has slow absorption, taking 60-120 minutes to reach maximal plasma concentrations. Therefore, inhalation methods may be more suitable for rapid onset of effects when managing acute symptoms such as nausea or seizures.³

Effects of Cannabis Inhalation

A common way to inhale cannabis is by smoking the raw plant material. Cannabis compounds are detectable in plasma seconds after the first inhalation with maximal peak plasma concentrations occurring within three to ten minutes. Approximately two hours after inhaling cannabis smoke, plasma concentrations decline to about half of the peak level. It should be noted that systemic bioavailability varies according to depth of inhalation duration and breathe hold, generally ranging between 23-27% for heavy users versus 10-14% for occasional users. Unfortunately, the composition of the smoke is qualitatively like that of tobacco. For instance, data shows that cannabis smoke contains several of the same carcinogens and co-carcinogens as those identified in tobacco smoke, including vinyl chlorides, phenols, nitrosamines, reactive oxygen species, and various polycyclic aromatic hydrocarbons (PAHs). As a result, chronic cannabis smoking can cause the same deleterious pulmonary effects as seen with tobacco smoking. For example, evaluation of the tracheobronchial epithelium suggests that smoking a few cannabis cigarettes a day has similar effects as smoking more than 20 tobacco cigarettes daily (mean value). However, inhalation enables the desired effects to occur more rapidly as compared to oral dosing.⁴

Cannabis Vapor

Considering the potential health risks associated with smoking cannabis and the loss of about 30% of the drug via pyrolysis during combustion, and with additional loss in the butt or inside stream smoke, it became necessary to develop a new inhalation system. This led to the development of the electric vaporizer. This smokeless device heats up cannabis extracts so that the active compounds boil (around 200°C) into a vapor without needing to reach full combustion. These cooler temperatures increase total compound utilization, while decreasing harmful effects described for smoking. Preliminary tests reveal meaningful improvements in respiratory function, providing evidence for the potential use of vaporizers for medical cannabis administration over conventional smoking methods. Recently, four electric vaporizers and one

³ Marijuana Business Daily, *Marijuana Business Factbook 2016*. Blacklist, Inc. commissioned white paper Zach Bell PHD 2017

⁴ Marijuana Business Daily, *Marijuana Business Factbook 2016*. Blacklist, Inc. commissioned white paper Zach Bell PHD 2017

gas-powered vaporizer were tested for their efficiency to vaporize THCA and CBDA.⁵ The electric devices, with their fine temperature controls, showed high decarboxylation efficiency of the acidic cannabinoids THCA ($\geq 97.3\%$) and CBDA ($\geq 94.6\%$). The gas-powered vaporizer, however, showed indications of combustion (e.g., ash left in the sample compartment and visible smoke) and lower decarboxylation efficiency of THCA (55.9%) and CBDA (45.9%).⁶ This reduction in efficiency was thought to be due to unreliable temperature control. Use of cannabis with electric vaporizers therefore decreases risk of the formation of potential toxic pyrolysis by-products and is a more efficient alternative to smoking cannabis or using gas powered vaporizer.⁷

Until recently, the market has primarily catered to mainstream cannabis (flower) consumers. However, as new consumers enter the market, Retailers offering the Blacklist brand, IONIC™ are ready to provide the discreet experience to these non-typical “stoner types”, with a healthier and more appealing alternative to smoking cannabis flower. Blacklist believes that its target markets will demand a more mature, sophisticated way to enjoy cannabis products.

The primary focus of Blacklist is in the concentrates market which currently encompasses 15% of all cannabis sales in Washington.⁸ With concentrate sales already exceeding US\$33 million in 2017 in Washington State alone, an entirely new national-level industry segment is coming online.

Concentrates are exactly what the word connotes – a concentrated form of THC or CBD oil. Blacklist produces proprietary concentrates, packaged in sleek disposable or rechargeable cartridges, as well as in the form of pure cannabis oil packaged in half- and full-gram designer jars. Both types of oil offer a convenient and discreet delivery. A disposable cartridge is ideal for short-term use, by tourists or visitors new to cannabis and wanting to explore the “cannabis experience”. Rechargeable cartridges are better suited for long-term use by everyday and experienced cannabis consumers looking to sample distinct strains without smoking the flower.

U.S. Cannabis Market

Development of the U.S. Cannabis Market

In the United States, the possession, use, cultivation, and transfer of cannabis remains illegal under U.S. federal laws. Federal law enforcement authorities have frequently closed down retail dispensaries, growers, and producers of cannabis products and have investigated or closed physician offices that provide medicinal cannabis recommendations. However, certain states in the United States have legalized cannabis for medicinal use while others have done so for adult recreational use.

The emergence of the legal cannabis sector in the United States, both for medical and recreational use, has been rapid as more states adopt regulations for its production and sale.

⁵ Marijuana Business Daily, *Marijuana Business Factbook 2016*. Blacklist, Inc. commissioned white paper Zach Bell PHD 2017

⁶ Marijuana Business Daily, *Marijuana Business Factbook 2016*. Blacklist, Inc. commissioned white paper Zach Bell PHD 2017

⁷ Marijuana Business Daily, *Marijuana Business Factbook 2016*. Blacklist, Inc. commissioned white paper Zach Bell PHD 2017

⁸ Marijuana Business Daily, *Marijuana Business Factbook 2016*. Blacklist, Inc. commissioned white paper Zach Bell PHD 2017

Today 60% of Americans live in a state where cannabis is legal in some form and almost a quarter of the population lives in states where it is fully legalized for adult use.⁹

The use of cannabis and cannabis derivatives to treat or alleviate the symptoms of a wide variety of chronic conditions has been generally accepted by a majority of citizens with a growing acceptance by the medical community as well. A review of research, published in 2015 in the *Journal of the American Medical Association*, found evidence supporting the use of cannabis to treat pain and muscle spasms.¹⁰ The pain component is particularly important because other studies have suggested that cannabis may serve as an alternative to opiates, which are highly addictive and potentially deadly.¹¹

Polls throughout the United States consistently show overwhelming support for the legalization of medical cannabis. There is also strong support for full legalization of recreational adult-use cannabis. It is estimated that 94% of U.S. voters support legalizing cannabis for medical use.¹² In addition, 64% of the U.S. public supports legalizing cannabis for adult recreational use.¹³ These values represent a strong shift in public support towards favoring legal cannabis use.

Notwithstanding that 29 states have now legalized adult-use and/or medical cannabis, cannabis remains illegal under U.S. federal law with marijuana listed as a Schedule I drug under the Controlled Substances Act.

Currently Blacklist operates in the states of Washington, California and Oregon and intends to expand into other states within the U.S. when such have legalized cannabis use for either medical or recreational use.

While certain regulatory changes have paved the way for wide-ranging entrepreneurship in the cannabis industry, the possession, use, cultivation, and transfer of cannabis remains illegal under U.S. federal law and represents a significant risk factor to the Blacklist to the extent it seeks to carry on business in or otherwise distribute products to the United States (see “*Risk Factors*”).

Current U.S. Cannabis Market

According to Arcview Market Research, the leading industry data researcher for the burgeoning regulated cannabis market in the United States, the cannabis industry in the United States is growing faster than the growth during the dot-com era. Legal cannabis sales in the United States and Canada grew by a meteoric 30% in 2016 to US\$6.7 billion, 33% in 2017 and are projected to top US\$24 billion by 2021 - in just five years (see below diagram).¹⁴ To put that in perspective,

⁹ Ripley, Eve. (2016 November 30). Nearly 60 percent of US. Population now lives in states with marijuana legalization”. Retrieved from <https://news.medicalmarijuana.com/nearly-60-percent-u-s-population-now-lives-states-marijuana-legalization/>.

¹⁰ Grant, Igor MD (2015). Medical Use of Cannabinoids. *Journal of American Medical Association*, 314: 16, 1750-1751. doi: 0.1001/jama.2015.11429.

¹¹ Bachhuber, MA, Saloner B, Cunningham CO, Barry CL. (2014). Medical Cannabis Laws and Opioid Analgesic Overdose Mortality in the United States, 1999-2010. *JAMA Intern Med.* 174(10):1668-1673. doi: 10.1001/jamainternmed.2014.4005.

¹² Quinnipiac University. (2017 April 20). U.S. Voter Support For Marijuana Hits New High; Quinnipiac University National Poll Finds; 76 Percent Say Their Finances Are Excellent Or Good. Retrieved from <https://poll.qu.edu/national/release-detail?ReleaseID=2453>.

¹³ Gallup. (2017 October 25). Record-High Support for Legalizing Marijuana Use in U.S. Retrieved from <http://news.gallup.com/poll/221018/record-high-support-legalizing-marijuana.aspx>.

¹⁴ Messamore, W.E. (January 6, 2017). Forbes: Legal Marijuana Sales In US Bigger Than Dot-Com Boom. Retrieved from <https://ivn.us/2017/01/06/legal-marijuana-sales-bigger-dot-com-boom/>.

the entire United States GDP grew by 22% during the dot-com era¹⁵, which was considered unprecedented economic growth at the time.

The number of medical cannabis patients in states with existing comprehensive medical cannabis programs was approximately 1.5 million by the end of 2017, served by approximately 1,500-2,000 medical dispensaries nationwide, a disproportionate number of those in California. It is currently estimated that each patient spends about US\$2,000 annually¹⁶, and that the total number of medical cannabis patients nationwide is expected to grow to 2.5 million by 2021.¹⁷

Washington Cannabis Market

People use cannabis for a variety of reasons, often to medicate, relax and socialize, and this market also encompasses successful adults. We cater to those active adults who are discreet, yet lighthearted and enjoy having fun. The fact is that attitudes are changing towards cannabis as new studies are released about its use, and we at Blacklist seek to facilitate this change. Cannabis use which is becoming widely accepted in many areas is much safer when compared to the impairment caused by many other substances like alcohol which generates US\$90 billion in revenue each year in the United States. We predict the legalization of marijuana will be accelerated in many other states due to the growth in sales generated in the Colorado and Washington State markets (annual revenue of US\$1.37 billion), causing a rapid influx of new markets for our products to be distributed. As a new generation takes over in business, it is apparent that adults are letting go of the “Reefer Madness” perspective and standing on a more realistic point of view Blacklist seeks to become a national brand known for its safety, reliability, and above all to remove the stigma around cannabis use. Blacklist exceeds Washington State Liquor and Cannabis Board’s standards including in its 100% testing for pesticides as additional precaution for the safety of our consumers.

The state of Washington is currently widely regarded as the most competitive market in the United States cannabis market. Management believes that our success in the state of Washington will serve Blacklist well as a launching platform to replicate our success in other recreational markets more specifically markets west of the state of Mississippi. In Washington, Blacklist’s IONIC™ brand currently accounts for just over 1% of total gross sales for recreational retail stores in the state of Washington.

California Cannabis Market

With nearly 40 million residents and more than a million medical cannabis patients, California’s market represents about a third of the North American cannabis market.¹⁸ The California cannabis market is expected to be one of the fastest growing industries in California over the next five years. Months after California legalized recreational cannabis, sales were estimated to reach US\$3.7 billion by the end of 2018 and BDS Analytics predicts that number will reach US\$5.1 billion by 2019. According to CFN Media Group, analysts at Cowen & Co. believe the

¹⁵ Berke, Jeremy (December 8, 2017). Business Insider, The legal marijuana market is exploding - it'll hit almost \$10 billion sales in this year. Retrieved from <https://nordic.businessinsider.com/legal-weed-market-to-hit-10-billion-in-sales-report-says-2017-12>.

¹⁶ Marijuana Business Daily. (2017). *Marijuana Business Factbook, 2017*. Available from <https://mjbizdaily.com/factbook/>.

¹⁷ New Frontier Financial. (2015). Modeling of State Patient Counts. *Cannabis Weekly*.

¹⁸ MarketNewsUpdates.com (June 19, 2018). California Cannabis Market Expected to Reach \$5.1 Billion Market Value. Retrieved from <https://www.prnewswire.com/news-releases/california-cannabis-market-expected-to-reach-51-billion-market-value-685917412.html>.

nation's legal cannabis industry could reach US\$50 billion by 2026, with California accounting for about US\$25 billion of that market.

In 2016, California recorded approximately US\$850 million in medical cannabis retail sales from operated dispensaries state wide; however, it is estimated approximately 85% of total transactions are not reported to the State and are carried out through illegal transactions. The University of California Agricultural Issues Center predicts the illegal market to shrink to less than 30%, legal adult recreational sales to increase to approximately 62%, and legal medical sales to decrease from approximately 15% to less than 10% as patients gain an alternative to obtaining medical cannabis physician recommendations for a fee.¹⁹

Oregon Cannabis Market

Oregonians are expected to spend more than US\$1 billion on cannabis products in 2020, according to a new forecast.²⁰ New Frontier Data projects US\$1.04 billion in combined adult recreational use and medical sales in 2020 in Oregon - US\$856 million on the recreational side and an additional US\$187 million on medical. That will rank the state fifth behind California (US\$3.1 billion), Washington (US\$2.28 billion), Colorado (US\$1.83 billion) and Massachusetts (US\$1.05 billion).

Brand Surge

BDS Analytics article, "BDS Analytics Top Ten Cannabis Market Trends for 2018", cites 'brand surge' as the third cannabis market trend demonstrating the importance of developing brand identity in the cannabis industry. For example, in Colorado in 2014, brands captured 19% of the market. By November of 2017, however, the brand share of the cannabis market had doubled, to 38%. Notably, in Colorado, Washington, Oregon and California, the top five edibles brands in each state own more than 40% of the market, and in Colorado and Washington the top five concentrates brands capture more than 70% of the market. Individual brands have the potential to achieve explosive growth. Management's strength is in branding and marketing and Blacklist expects to continue to acquire more market share as it markets and advertises its brand.

Trend Towards Oil and Vaping

As the cannabis industry matures, the types of products available have expanded. In each recreationally legal state, there has been exponential growth in cannabis oil sales. In fact, cannabis oil was the number one product on the rise in The Street's recent article entitled, "5 Cannabis Products on the Rise in 2018." In 2017, concentrate sales rose more than 50%.²¹ Unlike the decline of cannabis flower sales in most markets, the concentrates marketplace has been exploding as vaping has become socially acceptable. Today, vape cartridges are one of the cannabis market's most popular items. In California, the cannabis delivery service Eaze reported

¹⁹ McGreevy, Patrick. (2017 June 11). Legal marijuana could be a \$5-billion boon to California's economy. Retrieved from <http://www.latimes.com/politics/la-pol-ca-pot-economic-study-20170611-story.html>.

²⁰ Danko, Pete (Aug 10, 2018). Staff Reporter, Portland Business Journal Oregon cannabis sales expected to top \$1B by 2020.

²¹ Ward, Andrew (Nov 2, 2017) "Are Cannabis Concentrates Becoming More Popular than Flower?"

a 400% increase in oil cartridge purchases between 2015 and 2016 – totaling 25% of the company’s total sales.²²

Trends in the North American Cannabis Market

Blacklist estimates that the global size of the cannabis industry could reach US\$180 billion over the next 10 to 15 years as recreational cannabis use is legalized and as a result of expected market growth. Although the current regulatory market in the United States remains challenging, the U.S. cannabis market has the potential to be significantly larger than the Canadian market and is expected to drive growth in the industry.

Support for cannabis legalization reached new highs in 2017.²³ According to a report from Arcview Market Research and BDS Analytics, legal marijuana sales increased to US\$9.7 billion in North America in 2017. This value represents a 33% increase from 2016, shattering previous expectations about how quickly the cannabis industry could grow in the face of federal prohibition.²⁴ The Arcview report also predicted the legal cannabis market to reach US\$24.5 billion in sales - a 28% annual compound growth rate - by 2021, as more state-legal markets come online.

Notwithstanding the foregoing, the growing number of states in the United States allowing cannabis for medical and/or recreational use, the potential market for cannabis products is only expected to grow. However, the market and regulatory framework within which Blacklist is seeking to operate continues to evolve and remains subject to change and there are no assurances that such market and framework will develop in a manner consistent with Blacklist’s current expectations or at all.

Summary of Blacklist’s U.S. Cannabis Activity

Blacklist has an ancillary involvement in the cannabis industry in the states of Washington, Oregon and California. Blacklist has represented to the Issuer that the customer’s or investee’s business that Blacklist provides products or services to is in compliance with the regulatory framework enacted by the applicable U.S. state. All such activity is recorded through Blacklist and is also reflected in the *pro forma* financial statements as at and for the nine months ended September 30, 2018. As of the date hereof, Blacklist has no direct or indirect cannabis-related activity elsewhere in the United States.

The following table is a summary of Blacklist’s balance sheet exposure to U.S. cannabis-related activities, expressed in United States dollars:

	Blacklist
Current assets	US\$611,673
Non-current assets	US\$412,550
Total assets	US\$1,024,223

²² Ward, Andrew (Nov 2, 2017) "Are Cannabis Concentrates Becoming More Popular than Flower?"

²³ A Gallup Poll showed that 64% of Americans favor legalization.

²⁴ Robinson, Melia and Jeremy Berke (June 28, 2018). This map shows every state that has legalized marijuana. Retrieved from <https://www.businessinsider.com/legal-marijuana-states-2018-1>.

Current liabilities	US\$2,971,696
Non-current liabilities⁽¹⁾	US\$95,216
Total liabilities	US\$3,066,912
Members' equity	US\$(2,042,689)
Total liabilities and Member's equity	US\$1,024,223

Note:

(1) Payable to Blacklist.

The following is a summary of the operating losses from U.S. cannabis-related activities for the nine months ended September 30, 2018:

	Blacklist
Revenue	US\$1,765,227
Cost of sales	US\$1,410,316
Gross margin	US\$354,911
Less – Operating expenses	US\$1,624,642

The operating expenses above exclude any share-based compensation.

The following represents the portion of certain assets on Blacklist consolidated balance sheet that pertain to U.S. cannabis activity as of September 30, 2018:

Balance Sheet Line Item	Percentage which Relates to Holdings with U.S. Marijuana-Related Activities
Cash	\$16,465 (100%)
Deposits and Prepaids	\$232,102 (100%)
Property and equipment	\$412,550 (100%)

Blacklist has looked at all its holdings that are based in the U.S. and given that none of these holdings have any Canadian operating activity, all holdings in such entities was included in the Blacklist's assets.

Readers are cautioned that the foregoing financial information was drawn from the *pro forma* financial statements that have been reviewed by the Auditor.

The Resulting Issuer

Upon completion of the Transaction, the Resulting Issuer's business shall continue to be the business of Blacklist. See "Narrative Description of the Business – *Blacklist*".

(a) Business Objectives

The Resulting Issuer expects to accomplish the following business objectives over the 12 month period following the completion of the Transaction:

- obtain licenses to cultivate, process, and/or retail cannabis;
- further expand its investment in the cannabis market internationally; and
- obtain licenses to cultivate and/or process cannabis in other United States markets.

The Resulting Issuer's main sources of revenue will be from:

- (a) operating support, consulting, licensing and advisory fees from service contracts with certain cannabis license holders; and
- (b) leasing facilities and equipment to licensed cannabis entities.

(b) Significant Events Milestones

While there is no particular significant event or milestone that must occur for the Issuer's business objectives to be accomplished, the Issuer currently aims to achieve the following significant milestones in connection with the development of the Issuer's business:

Milestone	Anticipated Cost	Timeline from date of Listing Statement
Obtain operating license	Acquisition of cannabis cultivation, processing facility in Washington State.	3 months following the date of the Listing Statement
Obtain operating license	Acquisition of cannabis cultivation, processing facility in Nevada State.	4 months following the date of the Listing Statement
Obtain operating license	Acquisition of cannabis cultivation and/or processing license Oregon State	6 months following the date of the Listing Statement

Other than as described in this Listing Statement, there are no other significant events or milestones that must occur for the Resulting Issuer's business objectives to be accomplished. However, there is no guarantee that the Resulting Issuer will meet its business objectives or milestones described above within the specific time periods, within the estimated costs or at all. The Resulting Issuer may, for sound business reasons, reallocate its time or capital resources, or both, differently than as described above.

(c) Total Funds Available

As of February 28, 2019, Zara had negative working capital of approximately \$219,514 and Blacklist had positive working capital of \$768,251. Upon Closing, the Escrowed Proceeds will be released to the Resulting Issuer and the Blacklist Debentures will be converted into Resulting

Issuer Shares. The following table represents the available funds of the Resulting Issuer and the principal purpose of those funds over a 12-month period:

Source	Funds Available
Working Capitals of Zara and Blacklist as of February 28, 2019	\$ 548,737
Release of Escrowed Proceeds	\$7,140,073
Available Funds of the Resulting Issuer⁽¹⁾	\$7,688,810
Expenses related to the completion of the Transaction	\$250,000
Inventory Acquisitions	\$695,000
Business Development and Marketing	\$1,355,000
Investor Relations, Conference, Tradeshow and Travel	\$400,000
Acquisitions	\$2,300,000
Debt reduction	\$300,000
Equipment Acquisition	\$200,000
General and administrative costs estimated for operating 12 months	\$2,000,000
Total Unallocated	\$188,810

Note:

(1) General and administrative costs includes: wages, taxes and benefits (\$1,500,000); rent and utilities (\$120,000); insurance (\$75,000); legal and accounting (\$300,000); and miscellaneous (\$5,000).

There may be circumstances where, for sound business reasons, a reallocation of the net proceeds may be necessary. The actual amount that the Resulting Issuer spends in connection with each of the intended uses of proceeds may vary significantly from the amounts specified below, and will depend on a number of factors, including those referred to under Section 18 - *Risk Factors*. However, it is anticipated that the available funds will be sufficient to satisfy the Resulting Issuer's objectives over the next 12 months.

Ability to Access Public and Private Capital

The Resulting Issuer has historically, and we believe will continue to have, adequate access to equity from prospectus exempt (private placement) markets in Canada. While the Resulting Issuer is not able to obtain bank financing in the U.S. or financing from other U.S. federally regulated entities, it plans to (i) continue to access equity financing through private markets, and (ii) access equity financing through public markets in Canada, if listed on the CSE or another stock exchange. Further, the Resulting Issuer's executive team and board also have extensive relationships with sources of private capital (such as high net worth individuals), that could be investigated at a higher cost of capital. Current proceeds from the Resulting Issuer's financings will be used to finance the continued growth of the Resulting Issuer's business. In addition, from time to time, the Resulting Issuer may enter into transactions to acquire assets or the shares of other organizations. These transactions may be financed wholly or partially with debt, which may increase the Resulting Issuer's debt levels above industry standards, or through the issuance of shares which will be dilutive to the current shareholders.

Commercial banks, private equity firms and venture capital firms have approached the cannabis industry cautiously to date. However, there are increasing numbers of high net worth individuals and family offices that have made meaningful investments in companies and projects similar to

the Resulting Issuer's projects. Although there has been an increase in the amount of private financing available over the last several years, there is neither a broad nor deep pool of institutional capital that is available to cannabis license holders and license applicants. There can be no assurance that additional financing, if raised privately, will be available to the Resulting Issuer when needed or on terms which are acceptable. The Resulting Issuer's inability to raise financing to fund capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon future profitability. See Section 18 – "*Risk Factors*".

(d) Employees

The Resulting Issuer's staff will consist of approximately 30 people including full and part time employees and consultants.

The Resulting Issuer's business will require specialized skills and knowledge of the cannabis industry. Management of the Resulting Issuer will be composed of certain individuals who have extensive expertise in this industry and are complemented by the board of directors of the Resulting Issuer (see Section 14.11 – *Management*). The Resulting Issuer's future success will depend, in part, on its ability to continue to attract, retain and motivate highly qualified technical and management personnel, for whom competition is intense.

(e) Competitive Conditions and Position

General

There is potential that the Resulting Issuer will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and longer history of the production and marketing of cannabis than the Resulting Issuer.

Competitors are primarily branded and private label cannabis companies who are operating in multiple states. These competitors offer vape pens and cartridge products that are widely used in states where the consumption of cannabis is legal, however, they do not exploit the technology deployed by the Resulting Issuer. The Resulting Issuer considers itself in direct competition with O.pen, Bhang, and JUJU Joint, all of which have been in business for several years, achieved sizable market share and expanded into multiple states. Each has benefited from first and early-to-market brand recognition. Other potential competition includes W Vape, Dixie Elixir, and other established brands. The Resulting Issuer is confident that its vape products will be highly competitive, if not superior to its competitors. The Resulting Issuer intends to seek a competitive advantage by offering quality products with a focus on oil formulation, product design, branding, and a premier user experience.

Because of the early stage of the industry in which the Resulting Issuer operates, the Resulting Issuer also expects to face additional competition from new entrants. If the number of users of medical and recreational cannabis in Washington, California, Oregon and other states (as applicable) increases, the demand for products will increase and the Resulting Issuer expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products and pricing strategies.

To remain competitive, the Resulting Issuer will require a continued high level of investment in its facilities, licenses, branding, products and technologies, distribution, research and

development, marketing, sales and client support. The Resulting Issuer may not have sufficient resources to maintain its facilities, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition, and results of operations of the Resulting Issuer.

See also Section 18 – “*Risk Factors – Competition*”.

(f) Lending and Investment Policies and Restrictions

Not applicable.

(g) Bankruptcy and Receivership

Not applicable.

(h) Material Restructuring

See Section 2 – “The Transaction”.

(i) Social or Environmental Policies

Not applicable.

5.2 Asset Backed Securities

The Resulting Issuer does not have asset backed securities.

5.3 Companies with Mineral Projects

The Resulting Issuer will not have any mineral projects.

5.4 Companies with Oil and Gas Operations

The Resulting Issuer does not have any oil and gas operations.

6. SELECTED CONSOLIDATED FINANCIAL INFORMATION

6.1 Annual Information

Zara

The following table summarizes financial information of Zara for the last three completed financial years ended July 31, 2018, 2017 and 2016 and the three month period ended October 31, 2018. This summary financial information should only be read in conjunction with the Zara Annual Financial Statements and the Zara Interim Financial Statements, including the notes thereto. See Section 26 – *Financial Statements*.

	For the three month period ended	For the Year Ended July 31,		
Operating Data:	October 31, 2018	2018	2017	2016
Total revenues	Nil	Nil	Nil	Nil
Total G&A expenses	Nil	463	1,325	5,862
Net loss from operations	(17,353)	(45,476)	(21,092)	(78,903)
Basic and diluted loss per share ⁽¹⁾	(0.00)	(0.00)	(0.00)	(0.02)
Balance Sheet Data:				
Total assets	3,299	2,518	26,142	26,429
Total long-term liabilities	100,000	100,000	100,000	100,000

Note:

(1) Basic and diluted loss per share has been calculated using the weighted average number of shares outstanding.

A copy of the Zara Annual Financial Statements and the Zara Interim Financial Statements previously filed with applicable securities commissions are available on Zara's SEDAR profile at www.sedar.com.

Blacklist

The following table summarizes financial information of Blacklist for the completed financial year ended December 31, 2017 and the nine month period ended September 30, 2018. This summary financial information should only be read in conjunction with the Blacklist Financial Statements. See Section 26 – *Financial Statements*.

	For the nine month period ended (US\$)	For the Year Ended December 31, 2017 (US\$)
Operating Data:	September 30, 2018	
Total revenues	1,765,227	2,235,828
Total G&A expenses	1,624,642	1,421,438
Net loss from operations	(1,648,570)	(328,314)
Basic and diluted loss per share	(0.21)	(0.04)
Balance Sheet Data:		
Total assets	1,024,223	1,018,432
Total liabilities	3,066,912	63,223

6.2 Quarterly Information

Zara

The summary of quarterly results for each of the eight most recently completed quarters preceding the date of this Listing Statement:

Summary of quarterly results	Q1 2019 \$	Q4 2018 \$	Q3 2018 \$	Q2 2018 \$	Q1 2018 \$	Q4 2017 \$	Q3 2017 \$	Q2 2017 \$
Total revenues	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Net loss from operations	(17,353)	(32,368)	(3,980)	(4,107)	(5,021)	(9,824)	(4,052)	45,905
Basic and diluted loss per share (1)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)

Note:

(1) Basic and diluted loss per share has been calculated using the weighted average number of shares outstanding.

Copies of the respective unaudited interim financial statements for the periods listed above for Zara are available on Zara' SEDAR profile at www.sedar.com.

Blacklist

Summary of quarterly results	Q3 2018 \$	Q2 2018 \$	Q1 2018 \$	Q4 2017 \$	Q3 2017 \$	Q2 2017 \$
Total revenues	67,431	809,510	888,286	600,791	593,269	524,529
Net loss from operations	(1,486,499)	(176,246)	14,176	(462,082)	54,242	9,313
Basic and diluted loss per share (1)	(0.19)	(0.00)	(0.00)	(0.01)	(0.00)	(0.00)

Note:

(1) Basic and diluted loss per share has been calculated using the weighted average number of shares outstanding.

6.3 Dividends

Zara

Zara does not have a formal dividend policy. The Series A preferred shares, Series B preferred shares and Series C preferred shares are subject to cumulative dividends at the rate of 5% per annum, which is payable in Zara Shares based upon the prevailing market price of the Zara Shares.

During the year ended July 31, 2018, Zara issued 603,820 Zara Shares to holders of Series A preferred shares, Series B preferred shares and Series C preferred shares to settlement accumulated dividends owed to such holders.

Blacklist

Blacklist does not have any restrictions that could prevent it from paying dividends. It has paid no dividends since its inception on February 26, 2014. Blacklist intends to retain any earnings to finance growth and expand its operations and does not anticipate paying any dividends on its common shares in the foreseeable future.

6.4 Foreign GAAP

The financial information required in this Listing Statement has not been presented on the basis of foreign GAAP.

7. MANAGEMENT'S DISCUSSION AND ANALYSIS

Zara

A copy of the Zara Annual MD&A related to the Zara Annual Financial Statements and a copy of the Zara Interim MD&A related to the Zara Interim Financial Statements previously filed with applicable securities commissions is available through the Internet under Zara' SEDAR profile at www.sedar.com.

Blacklist

A copy of the Blacklist's MD&A for the year ended December 31, 2017 and 2016 (the "**Blacklist Annual MD&A**") and for the nine month period ended September 30, 2018 (the "**Blacklist Interim MD&A**") are attached to this Listing Statement as Schedule "D".

The Blacklist Annual MD&A should be read in conjunction with the audited financial statements and the notes thereto for the year ended December 31, 2017. The Blacklist Annual Financial Statements set out in Schedule "C" have been prepared in accordance with IFRS as issued by the International Accounting Standards Board. All amounts are expressed in United States dollars, unless otherwise stated.

The Blacklist Interim MD&A should be read in conjunction with the unaudited interim financial statements and the notes thereto for the three and nine months ended September 30, 2018. The Blacklist Interim Financial Statements set out in Schedule "C" have been prepared in accordance with IFRS applicable to the preparation of interim financial statements. The significant accounting policies are the same as those applied in Blacklist's annual financial statements as at and for the year ended December 31, 2017. All amounts are expressed in United States dollars, unless otherwise stated.

8. MARKET FOR SECURITIES

Zara

The common shares of Zara are listed and posted for trading on the CSE under symbol “ZRI”.

Blacklist

Blacklist is not a reporting issuer in any jurisdiction and the Blacklist Shares are not listed or posted for trading on any stock exchange. No public market exists for the Blacklist Shares.

Resulting Issuer

The Resulting Issuer Shares will be listed and posted for trading on the CSE, subject to compliance with the CSE’s listing requirements. The Resulting Issuer Shares would be listed under the trading name “IONC”.

9. CONSOLIDATED CAPITALIZATION

9.1 Consolidated Capitalization

Pro Forma Consolidated Capitalization

The following table summarizes the Resulting Issuer’s pro forma common shares, on a consolidated basis, after giving effect to the Transaction as described in the pro forma financial statements of the Resulting Issuer, a copy of which is attached at Schedule “A” hereto.

Designation of Security	Amount Authorized	Anticipated Shares Outstanding (as of the effective date of the Transaction)
Common Shares	Unlimited	108,436,715

Fully Diluted Share Capital

In addition to the information set out in the capitalization table above, the following table sets out the diluted share capital of the Resulting Issuer after giving effect to the Transaction:

	Anticipated Shares Outstanding (as of the effective date of the Transaction)
Zara Shares issued and outstanding	331,995 ⁽¹⁾
Resulting Issuer Shares issued to Blacklist Shareholders and Blacklist Debentureholders pursuant to the Acquisition	88,574,574
Resulting Issuer Shares issued to Blacklist Finco Shareholders pursuant to the Amalgamation	14,280,146
Resulting Issuer Shares issued to Finders	5,250,000
Total Resulting Issuer Shares	108,436,715

Reserved for issuance pursuant to Blacklist Warrants, including the Performance Warrants	17,726,580
Reserved for issuance pursuant to the Loan Warrants	2,000,000
Total Resulting Issuer Shares Reserved for Issuance	19,726,580
Total Number of Fully Diluted Securities	128,163,295

Note:

- (1) On a post-Consolidation basis.

10. OPTIONS TO PURCHASE SECURITIES

10.1 Description of the Stock Option Plan

Zara

Zara has in place, a 10% rolling share option plan that became effective as of and from May 27, 2016 (the “**Zara Option Plan**”) pursuant to which the Board of Directors of Directors can grant stock options (“**Zara Options**”) to directors, officers, employees, management and others who provide services to Zara (“**Zara Optionees**”). The Zara Option Plan provides compensation to participants and an additional incentive to work toward long-term company performance.

The purpose of the Zara Option Plan, is to encourage directors, officers and key employees of the Issuer and its subsidiaries and persons providing ongoing services to the Issuer to participate in the growth and development of the Issuer by providing incentive to qualified parties to increase their proprietary interest in the Issuer by permitting them to purchase Zara Shares and thereby encouraging their continuing association with the Issuer. The Zara Options are non-transferable and will expire upon the sooner of the expiry date stipulated in the particular Zara Options or after a certain period following the date the Zara Optionee ceases to be a qualified party by reason of death or termination of employment. A copy of the Zara Option Plan is attached hereto as Schedule “E”.

The Zara Option Plan provides that the number of Zara Shares which may be made the subject of options cannot exceed 10% of the issued and outstanding Zara Shares on a non-diluted basis at any time. The Zara Options granted under the Zara Option Plan together with all of the Issuer's other previously established Zara Option Plans or grants, shall not result at any time in: (a) the number of Zara Shares reserved for issuance pursuant to Zara Options granted to Insiders (defined in the Zara Option Plan) exceeding 10% of the issued and outstanding Zara Shares; (b) the grant to Insiders within a 12 month period, of a number of Zara Options exceeding 10% of the outstanding Zara Shares; (c) the grant to any one Zara Optionee within a 12-month period, of a number of Zara Options exceeding 5% of the issued and outstanding Zara Shares unless the Issuer obtains the requisite disinterested shareholder approval; (d) the grant to all persons engaged by the Issuer to provide Investor Relations Activities (defined in the Zara Option Plan), within any twelve-month period, of Zara Options reserving for issuance a number of Zara Shares exceeding in the aggregate 2% of the Issuer's issued and outstanding Zara Shares; or (e) the grant to any one Consultant (defined in the Zara Option Plan), in any twelve-month period, of Zara Options reserving for issuance a number of Zara Shares exceeding in the aggregate 2% of the Issuer's issued and outstanding Zara Shares.

The Board of Directors of Directors determines the price per Zara Share and the number of Zara Shares that may be allotted to each eligible person and all other terms and conditions of the options, subject to the rules of the CSE, provided however that price per share set by the Board of Directors of Directors must be at least equal to the Discounted Market Price of the Zara Shares. "Discounted Market Price" means the last per share closing price for the Zara Shares on the Exchange (defined in the Zara Option Plan) before the date of grant of a Zara Option, less any applicable discount under Exchange Policies (defined in the Zara Option Plan). In addition to any resale restrictions under Securities Laws (defined in the Zara Option Plan), any Zara Option granted under the Zara Option Plan and any Zara Shares issued upon the due exercise of any such Zara Option so granted will be subject to a four-month hold period commencing from the date of grant of the Zara Option, if the exercise price of the Zara Option is granted at less than the Market Price. "Market Price" means the closing price of the Zara Shares on any Exchange (and if listed on more than one Exchange, then the highest of such closing prices) on the last business day prior to the date of grant. In the event that such Zara Shares did not trade on such business day, the Market Price shall be the average of the bid and asked prices in respect of such Zara Shares at the close of trading on such date.

The term of a Zara Option shall be not more than 10 years from the date the Zara Option is granted. If a Zara Optionee ceases to be a director, officer, employee or consultant of the Issuer or its subsidiaries for any reason other than death, the Zara Optionee may, but only within ninety (90) days after the Zara Optionee's ceasing to be a director, officer, employee or consultant (or 30 days in the case of a Zara Optionee engaged in investor relations activities) or prior to the expiry of the exercise period, whichever is earlier, exercise any stock option held by the Zara Optionee, but only to the extent that the Zara Optionee was entitled to exercise the Zara Option at the date of such cessation. In the event of the death of a Zara Optionee, the Zara Option previously granted to him shall be exercisable within one (1) year following the date of the death of the Zara Optionee or prior to the expiry of the Zara Option period, whichever is earlier, and then only: (a) by the person or persons to whom the Zara Optionee's rights under the Zara Option shall pass by the Zara Optionee's will or the laws of descent and distribution, or by the Zara Optionee's legal personal representative; and (b) to the extent that the Zara Optionee was entitled to exercise the stock option at the date of the Zara Optionee's death.

In the event of (a) any disposition of all or substantially all of the assets of the Issuer, or the dissolution, merger, amalgamation or consolidation of the Issuer with or into any other company or of such company into the Issuer, or (b) any change in control of the Issuer, the Zara Option Plan gives the Issuer the power to make such arrangements as it shall deem appropriate for the exercise of outstanding Zara Options or continuance of outstanding Zara Options, including to amend any Zara Options to permit the exercise of any or all of the remaining Zara Options prior to the completion of any such transaction.

Subject to any required approvals under applicable securities legislation or Exchange rules, the Issuer may amend or modify the Plan or the terms of any option as the Board of Directors of Directors deems necessary or advisable provided that no such amendment shall adversely affect any accrued and vested rights of a Zara Optionee or alter or impair any option previously granted to that Zara Optionee, without the consent of the Zara Optionee (provided such a change would materially prejudice the Zara Optionee's rights under the Plan).

The Board of Directors has not proceeded with a formal evaluation of the implications of the risks associated with Zara' compensation policies and practices. Risk management is a consideration of the Board of Directors when implementing its compensation program, and the Board of Directors does not believe that Zara' compensation program results in unnecessary or inappropriate risk taking including risks that are likely to have a material adverse effect on Zara.

As of the date hereof, Zara has no issued and outstanding Zara Options.

11. DESCRIPTION OF THE SECURITIES

11.1 General

Common Shares

Zara is authorized to issue an unlimited number of Zara Shares, without nominal value, of which as of the date hereof 11,934,073 Zara Shares are issued and outstanding. Zara Shareholders are entitled to receive notice of and to attend and vote at all meetings of the shareholders of Zara and each Zara Share shall confer the right to one vote in person or by proxy at all meetings of the Zara Shareholders. The Zara Shareholders, subject to the prior rights, if any, of any other class of shares of Zara, are entitled to receive such dividends in any financial year as the Board of Directors may by resolution determine. In the event of the liquidation, dissolution or winding-up of Zara, whether voluntary or involuntary, the Zara Shareholders are entitled to receive, subject to the prior rights, if any, of the holders of any other class of shares of Zara, the remaining property and assets of Zara.

Preferred Shares

Zara is authorized to issue an unlimited number of Series A preferred shares, Series B preferred shares and Series C preferred shares.

As of the date hereof, there are no Series A, B and C preferred shares outstanding.

11.2 Debt Securities

Zara has no debt securities.

11.3 Other Securities

Not applicable.

11.4 Modification of Terms

Not applicable.

11.5 Other Attributes

Not applicable.

11.6 Prior Sales

Zara

For the 12-month period prior to the date of this document, the following securities of Zara were sold by Zara or any Related Person of Zara:

- On February 26, 2018, Daniel Wettreich (former director and CEO of Zara) sold 5,357,810 Zara Shares (representing 51% of the issued and outstanding share capital of Zara) at a price of \$0.11158647 per Zara Share to a number of independent investors.

Blacklist

For the 12-month period prior to the date of this Listing Statement, the following securities of Blacklist were sold:

- On January 1, 2018, Blacklist issued 316,000 Blacklist Shares to nine employees as bonuses for services rendered.
- On July 6, 2018, Blacklist issued Blacklist Debentures for an aggregate principal amount of \$735,000 which are convertible into Blacklist Shares at a conversion price of \$0.035 per Blacklist Share.
- On July 18, 2018, Blacklist issued 318,750 Blacklist Shares to a former consultant and director.
- On October 2, 2018, Blacklist issued Blacklist Debentures for an aggregate principal amount of \$1,200,000 which are convertible into Blacklist Shares at a conversion price of \$0.25 per Blacklist Share.
- On October 10, 2018, Blacklist issued Blacklist Debentures for an aggregate principal amount of \$1,250,000 which are convertible into Blacklist Shares at a conversion price of \$0.40 per Blacklist Share. Blacklist also issued 436,000 common shares as financing fees to certain eligible finders.
- On November 1, 2018, Blacklist issued 27,107 Blacklist Shares to an employee in lieu of payroll.
- On November 1, 2018, Blacklist issued 1,000 Blacklist Shares to a consultant.
- On November 1, 2018, Blacklist issued 459,390 Blacklist Shares at various issue prices to settle amounts owing to officers and directors of Blacklist equal to \$225,000.
- On November 26 and December 4, 2018, Blacklist issued Blacklist Debentures for an aggregate principal amount of \$1,586,708 which are convertible into Blacklist Shares at a conversion price of \$0.50 per Blacklist Shares. In addition, Blacklist issued an aggregate

of 174,000 Blacklist Finder's Warrants to certain finders. Blacklist also issued 174,000 Blacklist Shares to settle \$87,000 of financing fees of certain finders.

- On November 26, 2018, Blacklist issued 2,000,000 Blacklist Shares at an issue price of \$0.50 per Blacklist Share to settle amounts owing to an arm's length third party equal to \$1,000,000.
- On November 26 and December 4, 2018, Blacklist Finco issued 14,280,146 Subscription Receipts pursuant to the Subscription Receipt Financing for gross proceeds of \$7,140,073. In addition, Blacklist issued an aggregate of 552,580 Blacklist Finder's Warrants to certain finders in connection with the Subscription Receipt Financing. Blacklist also issued 273,700 Blacklist Shares to settle \$139,440 of financing fees of certain finders.
- On December 5, 2018, Blacklist issued 2,487,497 Blacklist Shares to settle amounts owing to consultants, vendors and certain officers and directors of Blacklist equal to \$1,229,695.
- On December 20, 2018, Blacklist issued 1,075,818 Blacklist Shares to settle amounts owing to a consultant equal to \$537,909.
- On December 20, 2018, Blacklist settled \$131,666 loans into 260,000 Blacklist Shares.
- On December 20, 2018, Blacklist issued 440,000 Blacklist Shares to certain employees in lieu of share purchase options.
- On February 28, 2019, Blacklist issued 2,000,000 Loan Warrants to the Lender in connection with the Loan.

11.7 Stock Exchange Price

The following table sets out the price ranges and volume traded or quoted on the CSE for the Zara Shares for the period prior to the date of this Listing Application:

CSE	High	Low	Volume
February 2019 ⁽¹⁾	0.07	0.07	-
January 2019 ⁽¹⁾	0.07	0.07	-
December 2018 ⁽¹⁾	0.07	0.07	331
November, 2018	0.09	0.07	4,120
October, 2018	0.09	0.09	527
September, 2018	0.20	0.07	148,752
August, 2018	0.20	0.135	141,926

CSE	High	Low	Volume
Quarter ended July, 2018	0.22	0.105	46,849
Quarter ended April, 2018	0.24	0.08	1,104,460
Quarter ended January, 2018	0.15	0.15	0
Quarter ended October, 2017	0.15	0.15	0
Quarter ended July, 2017	0.15	0.15	0
Quarter ended April 2017	0.43	0.005	270,654
Quarter ended January, 2017	0.005	0.005	475,703

Notes:

(1) Trading of the Zara Shares has been halted since December 27, 2018.

Zara has applied to the CSE for the listing of the Resulting Issuer Shares. Listing will be subject to the Resulting Issuer fulfilling all the listing requirements of the CSE. The Resulting Issuer Shares would be listed under the trading symbol “IONC”.

12. ESCROWED SECURITIES

12.1 Escrowed Securities

As required under the policies of the CSE, Principals of the Resulting Issuer will enter into an escrow agreement as if the company was subject to the requirements of National Policy 46-201 – *Escrow for Initial Public Offerings* (“NP 46-201”). Escrow releases will be scheduled at periods specified in NP 46-201 for emerging issuers, that is, 10% will be released upon completion of the Transaction followed by six subsequent releases of 15% every six months thereafter. The form of the escrow agreement must be as provided in NP 46-201.

The table below includes the details of escrowed securities that will be held by Principals of the Resulting Issuer upon the completion of the Transaction:

Name of Securityholder	Designation of Class Held in Escrow	Number of Securities Held in Escrow	Percentage of Class ⁽¹⁾⁽²⁾
John Gorst	Common Shares	16,829,641	15.5%
	Warrants	2,408,000	12.2%
Andrew Schell ⁽³⁾	Common Shares	16,132,521	14.9%
	Warrants	2,408,000	12.2%
Bryen Salas	Common Shares	3,732,153	3.4%
	Warrants	1,908,000	9.7%
Christian Struzan	Common Shares	5,248,176	4.8%
	Warrants	2,008,000	10.2%
Austin Gorst	Common Shares	2,338,596	2.2%

	Warrants	1,908,000	9.7%
Total	Common Shares	44,281,087	40.8%
	Warrants	10,640,000	53.9%

Notes:

- (1) The total issued and outstanding Resulting Issuer Shares is expected to be 108,436,715 on an undiluted basis.
- (2) The total issued and outstanding warrants of the Resulting Issuer is 19,726,580.
- (3) 52,880 Resulting Issuer Shares are held by Sound Developers Group Inc., where Mr. Schell is the controlling shareholder.

An aggregate of 7,044,284 Resulting Issuer Shares of nine Blacklist Shareholders will be subject to a voluntary escrow agreement whereby 10% will be released upon completion of the Transaction, an additional 50% will be released four months after the completion of the Transaction and the remainder will be released eight months after the completion of the Transaction.

13. PRINCIPAL SHAREHOLDERS

To the knowledge of directors and officers of each of Zara and Blacklist, following the Transaction, the following persons will beneficially and of record directly or indirectly, own or exercise control or direction over voting securities carrying more than 10% of the voting rights attached to any class of voting securities of the Resulting Issuer:

Name	Number of Issuer Shares Held	Percentage of class ⁽¹⁾
John Gorst	16,829,641	15.5%
Andrew Schell	16,132,521	14.9%

Notes:

- (1) The total issued and outstanding Resulting Issuer Shares is expected to be 108,436,715 on an undiluted basis.

To the knowledge of Zara or Blacklist, there is no voting trust or similar agreement, subject to which more than 10 per cent of any class of voting securities of the Resulting Issuer is held, or is to be held.

To the knowledge of Zara or Blacklist, none of the principal shareholders is an Associate or Affiliate of any other principal shareholder.

14. DIRECTORS AND OFFICERS

14.1 General

Upon completion of the Transaction, the board of directors of the Resulting Issuer is expected to be composed of seven members, as set out below.

The name, municipality of residence, position or office held with Zara and principal occupation of each proposed director and executive officer of Zara, as well as the number of voting securities beneficially owned, directly or indirectly, or over which each exercises control or direction, following the successful completion of the Transaction, excluding common shares issued on the exercise of convertible securities, are as follows:

Name, place of the residence and position with the Resulting Issuer	Principal occupation during the last five years	Date of appointment as director or officer	Resulting Issuer Shares Beneficially Owned, Directly or Indirectly, or Controlled or Directed upon completion of the Transaction ⁽¹⁾⁽⁶⁾
<p>John Gorst⁽³⁾ Chief Executive Officer and Director Tacoma, WA</p>	<p>Chairman and CEO of Blacklist from September 2017 to present; Vice Chairman and Chief Strategy Officer of Cloud X Partners from December 2015 to October 2016 and Vice Chairman through April 2017. Chairman and CEO of CloudRunner, Inc. from February 2014 to December 2015; Chairman and CEO of InsynQ Inc. from December 1997 to April 2014.</p>	<p>Proposed</p>	<p>16,829,641 (15.5%)</p>
<p>Andrew Schell⁽²⁾⁽⁵⁾ Chief Strategy Officer and Director Tacoma, WA</p>	<p>Chief Strategies Officer of Blacklist from September 2016 to present; Co-founder and Director of Ha Coffee Bar from November 2013 to present; Co-founder and President of Sound Development Group from November 2004 to present; Founder and CEO of A.W. Schell Electrical Services Inc. from November 1999 to March 2014.</p>	<p>Proposed</p>	<p>16,132,521 (14.9%)</p>
<p>Bryen Salas President and Director Tacoma, WA</p>	<p>Co-founder and Vice President of Blacklist from July 2017 to present; Vice President of Sales of Blacklist from December 2015 to July 2017</p>	<p>Proposed</p>	<p>3,732,153 (3.4%)</p>
<p>Christian Struzan</p>	<p>Founder of XS Brand</p>	<p>Proposed</p>	<p>5,248,176 (4.8%)</p>

Chief Marketing Officer and Director Los Angeles, CA	Inc. from July 2014 to present; CEO of XL Family of Companies from May 2002 to July 2014; Vice President of Armslength Promotions from March 2004 to February 2014.		
Austin Gorst Vice President and Director Portland, OR	Co-founder of Blacklist from 2014 to present; Sales Representative of InsynQ, LLC from April 2010 to October 2015.	Proposed	2,338,596 (2.2%)
M. Carroll Benton ⁽²⁾⁽³⁾⁽⁴⁾ Director Corvallis, OR	Chief Financial Officer and Director of InsynQ, Inc. from August 1997 to 2015	Proposed	318,750 (0.3%)
Brian T. Lofquist ⁽²⁾⁽³⁾⁽⁴⁾ Director Seattle, WA	Consultant at The Lofquist Group from January 2013 to present; Director of FlowWorks Inc. from November 2012 to present; President/General Manager of FlowWorks Inc. from June 2014 to present.	Proposed	Nil
Scott Manson Chief Financial Officer New York, NY	Managing Member of Greyzdorf LLC since May 2015; Director and CFO of Sprizzi Drink Co. 2012 to 2016.	Proposed	160,000 (0.1%)

Notes:

- (1) The information as to principal occupation, business or employment and Resulting Issuer Shares beneficially owned or controlled is not within the knowledge of the management of Zara and has been furnished by the respective nominees.
- (2) Member of Audit Committee.
- (3) Member of the Compensation Committee.
- (4) Member of the Corporate Governance Committee.
- (5) 52,880 Resulting Issuer Shares are held by Sound Developers Group Inc., where Mr. Schell is the controlling shareholder.
- (6) The total issued and outstanding Resulting Issuer Shares is expected to be 108,436,715 on an undiluted basis.

14.2 Period of Service of Directors

The proposed directors will be appointed as directors of the Resulting Issuer upon completion of the Transaction.

14.3 Directors and Executive Officers Common Share Ownership

The proposed directors and executive officers of the Resulting Issuer as a group, directly or indirectly, will beneficially own or exercise control or direction over 44,759,837 Resulting Issuer Shares, representing approximately 41.3% of the issued and outstanding common shares of the Resulting Issuer.

14.4 Board of Directors Committees

The Resulting Issuer will have three committees: the Audit Committee, the Compensation Committee and the Corporate Governance Committee.

The Audit Committee of the Resulting Issuer will consist of the following members:

Andrew Schell Non-Independent Member

M. Carroll Benton Independent Member

Brian Lofquist Independent Member

The Compensation Committee of the Resulting Issuer will consist of the following members:

John Gorst Non-Independent Member

M. Carroll Benton Independent Member

Brian Lofquist Independent Member

The Corporate Governance Committee of the Resulting Issuer will consist of the following members:

John Gorst Non-Independent Member

M. Carroll Benton Independent Member

Brian Lofquist Independent Member

14.5 Principal Occupation of Directors and Executive Officers

Information on directors and executive officers' principal occupation is set out in section 14.1 – *Directors and Executive Officers*.

14.6 Cease Trade Orders or Bankruptcies

Other than described below, no proposed director or officer of the Resulting Issuer, or a security holder anticipated to hold sufficient securities of the Resulting Issuer to affect materially the control of the Resulting Issuer, nor any personal holding company of any such person is, or has, within the 10 years prior to the date of this document: (a) been the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under

securities legislation for a period of more than 30 consecutive days; (b) been subject to an event that resulted, after the director or officer ceased to be a director or executive officer of such company, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; (c) become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or been subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets or (d) within a year of the director or officer ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or been subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

John Gorst who acted as CEO of Gottaplay Interactive Inc. from September 2004 to April 2007. John Gorst provided personal guarantees for the office space of Gottaplay Interactive Inc. and in 2009 Gottaplay Interactive Inc. was financially struggling. John filed for bankruptcy protection under Chapter 7 of the Title 11 of the United States Code and was discharged in 2009.

14.7 Penalties or Sanctions

No proposed director, officer or promoter of the Resulting Issuer, or a security holder anticipated to hold sufficient securities of the Resulting Issuer to affect materially the control of the Resulting Issuer, has:

- (a) been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities regulatory authority; or
- (b) been subject to any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor making an investment decision.

14.8 Settlement Agreements

Not applicable.

14.9 Personal Bankruptcies

Other than described below, no proposed director or officer of the Resulting Issuer, or a security holder anticipated to hold sufficient securities of the Resulting Issuer to affect materially the control of the Resulting Issuer, nor any personal holding company of any such person is, or has, within the 10 years prior to the date of this document, been declared bankrupt or made a voluntary assignment in bankruptcy, made a proposal under any legislation relating to bankruptcy or insolvency or been subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of that individual.

John Gorst who acted as CEO of Gottaplay Interactive Inc. from September 2004 to April 2007. John Gorst provided personal guarantees for the office space of Gottaplay Interactive Inc. and in 2009 Gottaplay Interactive Inc. was financially struggling. John filed for bankruptcy protection under Chapter 7 of the Title 11 of the United States Code and was discharged in 2009.

14.10 Conflicts of Interest

The proposed directors of the Resulting Issuer are bound by the provisions of the BCBCA to act honestly and in good faith with a view to the best interests of the Resulting Issuer and to disclose any interests, which they may have in any project or opportunity of the Resulting Issuer. If a conflict of interest arises at a meeting of the board of directors, any director in a conflict will disclose his interest and abstain from voting on such matter.

To the best of Zara's and Blacklist's knowledge, and other than disclosed herein, there are no known existing or potential conflicts of interest among the Resulting Issuer, its promoters, directors and officers or other members of management of the Resulting Issuer or of any proposed promoter, director, officer or other member of management except that certain of the directors and officers serve as directors and officers of other companies, and therefore it is possible that a conflict may arise between their duties to the Issuer and their duties as a director or officer of such other companies.

14.11 Management

The following sets out details of the proposed directors and management of the Resulting Issuer:

John P. Gorst, Proposed Director and Chief Executive Officer, Age 50

John has been CEO of Blacklist since April 2017. Prior to joining Blacklist, John was CEO of InsynQ, Inc. for 17 years before the company was sold. John has built, led, and sold four different technology companies, with market values up to US\$600 million. He raised a total of US\$30 million for his past businesses and has applied the same capital raising strategies for Blacklist. John is the largest early investor in Blacklist, and has been at the helm throughout Blacklist's founding and expansion as Washington's leading vape company.

As CEO of Blacklist, John assumed a fledgling workforce and helped the more youthful managers and staff of Blacklist to learn and apply critical thinking skills, problem identification and resolution, and lean kaizen practices. His keen radar senses issues before they become problems, and he has helped the team learn how to readily adapt. John has employed a well-balanced executive-level team to achieve the goals and mission of Blacklist.

John has led his executive team in the development of an aggressive business growth plan to maximize possible opportunities for expansion of market share of existing products. He plans to continue to focus on research and development activities that Blacklist hopes will evolve into new product lines that will help establish Blacklist as a world-class leader in this industry.

John intends to devote the majority of his time to the Resulting Issuer. Upon completion of the Transaction, John will enter into a non-competition agreement and non-disclosure agreement as part of his employment agreement with the Resulting Issuer.

Andrew W. Schell, Proposed Director and Chief Strategy Officer, Age 45

Andrew has been the Chief Strategies Officer of Blacklist since September 2016. Previously, Andrew founded A.W. Schell Electrical Services Inc., a contractor for the United States Department of Defense, and built the company to more than US\$18 million in annual revenue. Through a merger, he was able to raise revenue to over US\$50 million and move on to other personal ventures. He has managed over 250 employees and has experience in manufacturing, engineering, and operations, and expanded his company into California, Oregon and Washington.

Andrew intends to devote the majority of his time to the Resulting Issuer. Upon completion of the Transaction, Andrew will enter into a non-competition agreement and non-disclosure agreement as part of his employment agreement with the Resulting Issuer.

Bryen J. Salas, Proposed Director and President, Age 30

Bryen is a co-founder of Blacklist and has been the Vice President of Blacklist since July 2017. He was Vice President of Sales of Blacklist from 2012-2017, leading Ionic to becoming one of the top selling vaporizer brands sold in the State of Washington.

Throughout his years at Blacklist, Bryen has served in crucial managerial roles, supporting the functions of Blacklist's supply chain, product development, marketing, human resources and technology.

Bryen devotes 100% of his time to the Resulting Issuer. Upon completion of the Transaction, Bryen will enter into a non-competition agreement and non-disclosure agreement as part of his employment agreement with the Resulting Issuer.

Christian D. Struzan, Proposed Director and Chief Marketing Officer, Age 50

Christian brings 30 years of experience in marketing and branding for the entertainment industry to Blacklist. He founded an advertising agency which developed and executed marketing campaigns for feature films and television series. Christian has expertise in electronic, mobile, and print media advertising.

As Chief Marketing Officer of the Resulting Issuer, Christian is expected to lead the Resulting Issuer in branding IONICTM as a premier vape product. In December 2017, Blacklist was recognized at the DOPE industry awards of Washington State for best branding and marketing. Christian intends to continue to lead the brand promotion of Blacklist's product design and packaging into new markets as identified in its business growth plan.

Christian intends to devote the majority of his time to the Resulting Issuer. Upon completion of the Transaction, Christian will enter into a non-competition agreement and non-disclosure agreement as part of his employment agreement with the Resulting Issuer.

Austin Gorst, Proposed Director and Vice President, Age 29

Austin is a co-founder of Blacklist and has been active in the growth of the business since its inception in 2014. Austin worked six years in information technology while going through the infancies of the business and development of the vape products Blacklist sells today. In September 2015, Austin resigned from his Account Executive role at InsynQ, Inc. and joined Blacklist as a full-time manager of the business. Austin was part of Blacklist's growth in 2016. He assisted with training and building the Blacklist team and increased top line revenue through sales in the Washington market. In early 2017, he started the first expansion plan to replicate Blacklist's business plan in the state of Oregon.

Austin intends to devote the majority of his time to the Resulting Issuer. Upon completion of the Transaction, Austin will enter into a non-competition agreement and non-disclosure agreement as part of his employment agreement with the Resulting Issuer.

M. Carroll Benton, Proposed Director, Age 74

M. Carroll Benton was the Chief Financial Officer, Chief Administrative Officer and Director of Visibility Holdings, Inc. (formerly a public company). Ms. Benton directed and managed the fiscal responsibilities of Visibility Holdings, Inc. since inception in 2000. Ms. Benton's early career spanned both the public and private sectors working largely with the banking systems and higher education institutions where she assisted in the development and deployment strategies necessary for computerization of these and other entities. Ms. Benton successfully managed a 13-state insurance brokerage firm and has been a consultant to the small to medium business markets via accounting system design, implementation, support, and business practice analysis. She also taught undergraduate accounting courses at several Puget Sound colleges and universities. From December 1995 through December 1999, Ms. Benton was president of a computer integration company, Interactive Information Systems Corp. Her public sector experience also includes serving as Chief Financial Officer, Secretary, Treasurer, and Director for Gottaplay Interactive, Inc., an online game rental company, from August 2004 to 2007. Formerly with a CPA firm, Ms. Benton brings over 46 years of financial expertise.

Carroll intends to devote 20% of her time to the Resulting Issuer. Carroll is an independent contractor and has not entered into a non-competition agreement. Upon completion of the Transaction, Carroll will enter into a non-disclosure agreement as part of her consulting agreement with the Resulting Issuer.

Brian Lofquist, Proposed Director, Age 61

Brian Lofquist has been a finance and accounting professional for over 25 years, serving as CFO for small- to mid-sized local businesses. His career highlights include strengthening financial reporting and organization for a manufacturing company in the Seattle area for 12 years and serving as director of finance for a software company where he worked on four mergers and acquisitions on the west coast.

He has comprehensive negotiations experience with mergers and acquisitions. He facilitated a successful merger of a data solutions company, and as part of that acquisition, successfully negotiating a debt-to-equity agreement of US\$1 million with their major supplier. He worked

with a commercial espresso machine manufacturing company, and participated in Series A, Series B and Series C funding rounds for an aggregate capital raise of US\$15.5 million.

He has served as an officer on multiple corporate boards as well as not-for-profit companies, including the Whatcom Beer & Wine Foundation, which helps raise funds for local social service organizations.

Brian intends to devote 5% of his time to the Resulting Issuer. Brian is an independent contractor and has not entered into a non-competition agreement. Upon completion of the Transaction, Brian will enter into a non-disclosure agreement as part of his consulting agreement with the Resulting Issuer.

Scott M. Manson, Chief Financial Officer and Secretary, Age 58

Scott is both a Certified Public Accountant, receiving a BBA, cum laude, from Hofstra University and is a licensed New York attorney, earning his juris doctorate degree from Hofstra University School of Law.

Scott presently serves as Managing Member of Greyzdorf LLC a real estate investment firm. He previously was a director and CFO of Sprizzi Drink Co., a start-up manufacturer and distributor of beverage dispensing machines, from 2012 to 2016. He has served as Chief Financial Officer for numerous public and private companies and has consulted for two cannabis companies. Scott also serves as Treasurer for four not for profit companies and is an advisor to numerous others.

Scott intends to devote the majority of his time to the Resulting Issuer. Upon completion of the Transaction, Scott will enter into a non-competition agreement and non-disclosure agreement as part of his employment agreement with the Resulting Issuer.

15. CAPITALIZATION

15.1 Issued Capital

	<u>Number of Securities (non-diluted)</u>	<u>Number of Securities (fully-diluted)</u>	<u>% of Issued (non-diluted)</u>	<u>% of Issued (fully dilated)</u>
<u>Public Float</u>				
Total outstanding (A)	108,436,715	128,163,295	100%	100%
Held by Related Persons or employees of the Resulting Issuer or Related Person of the Resulting Issuer, or by persons or companies who beneficially own or control, directly or indirectly, more than a 5% voting position in the Resulting Issuer (or who would beneficially own or control, directly or indirectly, more than a 5% voting position in the Resulting Issuer upon exercise or conversion of other securities held) (B)	64,536,057	75,536,057	59.5%	58.9%

Total Public Float (A-B)	43,900,658	52,627,238	40.5%	41.1%
<u>Freely-Tradeable Float</u>				
Number of outstanding securities subject to resale restrictions, including restrictions imposed by pooling or other arrangements or in a shareholder agreement and securities held by control block holders (C)	77,125,371	87,765,371	71.1%	68.5%
Total Tradable Float (A-C)	31,311,344	40,397,924	28.9%	31.5%

Public Security holders (Registered)

For the purposes of the following table, “public securityholders” are persons other than persons enumerated in section (B) of the Issued Capital table and only registered holders are listed.

Class of Security: Common Shares

Size of Holding	Number of holders	Total number of securities
1 - 99 securities	58	361
100 – 499 securities	6	1,382
500 – 999 securities	1	846
1,000 – 1,999 securities	1	1,642
2,000 – 2,999 securities	Nil	Nil
3,000 – 3,999 securities	1	3,000
4,000 – 4,999 securities	2	8,000
5,000 or more securities	183	43,885,427
Total	252	43,900,658

Public Securityholders (Beneficial)

For the purposes of the following table, “public securityholders (beneficial)” include (i) beneficial holders holding securities in their own name as registered shareholders; and (ii) beneficial holders holding securities through an intermediary; but does not include “non-public securityholders” being those persons enumerated in section (B) of the above Issued Capital table.

Class of Security: Common Shares

Size of Holding	Number of holders	Total number of securities
1 - 99 securities	215	602
100 – 499 securities	113	2,048
500 – 999 securities	28	1,383
1,000 – 1,999 securities	13	2,118

Size of Holding	Number of holders	Total number of securities
2,000 – 2,999 securities	13	884
3,000 – 3,999 securities	3	3,188
4,000 – 4,999 securities	4	8,239
5,000 or more securities	214	32,968,978
Total	603	32,987,440

Non-Public Securityholders (Registered)

For the purposes of this table, “non-public securityholders” are persons enumerated in section (B) of the above Issued Capital table.

Class of Security: Common Shares

Size of Holding	Number of holders	Total number of securities
1 - 99 securities	-	-
100 – 499 securities	-	-
500 – 999 securities	-	-
1,000 – 1,999 securities	-	-
2,000 – 2,999 securities	-	-
3,000 – 3,999 securities	-	-
4,000 – 4,999 securities	-	-
5,000 or more securities	16	64,536,057
Total	16	64,536,057

15.2 Convertible/Exchangeable Securities

As at the date of this Listing Statement, Zara had no outstanding Zara Options issued and outstanding or any other securities convertible into Zara Shares.

15.3 Other Listed Securities

There are no listed securities reserved for issuance that are not included in Section 15.2 – “*Convertible/Exchangeable Securities*”.

16. EXECUTIVE COMPENSATION

16.1 Statement of Executive Compensation

Zara

Details related to the executive compensation paid by Zara, prepared in accordance with Form 51-102F6 of National Instrument 51-102 – *Continuous Disclosure Obligations*, can be found on SEDAR (www.sedar.com) in Zara’s management information circular dated January 25, 2019.

Blacklist

The following table, prepared in accordance with Form 51-102F6, sets forth all annual and long term compensation for services in all capacities to Blacklist for the three most recently completed financial years of Blacklist in respect of each of the individuals comprised of each Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”) who acted in such capacity for all or any portion of the most recently completed financial year, and each of the three most highly compensated executive officers, or the three most highly compensated individuals acting in a similar capacity, (other than the CEO and the CFO), as at December 31, 2017 whose total compensation was, individually, more than \$150,000 for the financial year and any individual who would have satisfied these criteria but for the fact that individual was neither an executive officer of Blacklist, nor acting in a similar capacity, for the most recently completed financial year ending December 31, 2017 (collectively the “Named Executive Officers” or “NEOs”).

NEO Name and Principal Position	Year	Salary US(\$)	Share-Based Awards US(\$)	Option-Based Awards US(\$)	Non-Equity Incentive Plan Compensation US(\$)		Pension Value US \$	All Other Compensation US(\$)	Total Compensation US(\$)
					Annual Incentive Plans	Long-term Incentive Plans			
John Gorst CEO and Director	2018	129,000	5,158	56,234	-	-	-	-	190,492
	2017	35,000	-	-	-	-	-	-	35,000
	2016	NIL	-	-	-	-	-	-	NIL
Andrew Schell Chief Strategies Officer	2018	72,500	5,158	56,234	-	-	-	-	133,992
	2017	32,500	-	-	-	-	-	-	32,500
	2016	17,500	-	-	-	-	-	-	17,500
Bryen J. Salas Vice President	2018	135,831	1,146	11,247	-	-	-	-	148,224
	2017	133,110	-	-	-	-	-	-	133,110
	2016	86,268	-	-	-	-	-	-	86,268
Scott M. Manson Chief Financial Officer	2018	35,000	-	112,468	-	-	-	-	147,468
	2017	N/A	-	-	-	-	-	-	N/A
	2016	N/A	-	-	-	-	-	-	N/A
Christian Struzan	2018	124,000	1,586	28,117	-	-	-	-	153,703
	2017	N/A	-	-	-	-	-	-	N/A

Chief Marketing Officer	2016	N/A							N/A
Austin Gorst	2018	99,542	716	11,247	-	-	-	-	111,505
Vice President	2017 2016	69,027 64,465							69,027 64,465
Johnny Strange	2018	57,500	153	-	-	-	-	144,866	202,519
Chief Revenue Officer	2017 2016	7,225 N/A							7,225 N/A

Compensation Discussion and Analysis

Blacklist does not have in place any formal objectives, criteria or analysis for determining or assessing the compensation of its executive officers and Directors, nor does it have a compensation committee.

Blacklist is aware of the challenges that it faces in its present stage of development and the financial limitations of being a fast growing company that provides services and products to the nascent cannabis industry. Corporate performance and level of activity has been a consideration in determining compensation. As Blacklist's business and operations grow in size and complexity, it is anticipated that it will establish a compensation committee with formal objectives and policies, including specific performance goals or benchmarks as such relate to executive compensation, that will review compensation practices of companies of similar size and stage of development to ensure the compensation paid is competitive within the company's industry.

The compensation of Blacklist's officers and directors is based on an incentive philosophy with the intent that all efforts will be directed toward a common objective of creating shareholder value. The compensation strategy is to attract talent and experience with focused leadership in the operations, financing, and management of the company with the objective of maximizing the value of the company. The officers and board of directors each have defined skills and experience that are essential to a fast growing company that provides services and products to the emerging cannabis industry.

Base Salary or Consulting Fees

Base salary ranges for executive officers were initially determined upon a review of companies within the manufacturing industry, which were of the same size as Blacklist, at the same stage of development as Blacklist and considered comparable to Blacklist.

In determining the base salary of an executive officer, the board of directors of Blacklist considers the following factors:

- (a) The particular responsibilities related to the position;
- (b) Salaries paid by other companies that are similar in size and scope of business;
- (c) The experience level of the executive officer;

- (d) The amount of time and commitment which the executive officer devotes to Blacklist; and
- (e) The executive officer's overall performance and performance in relation to the achievement of corporate milestones and objectives.

Bonus Incentive Compensation

Blacklist's objective is to achieve certain strategic objectives and milestones. The board of directors of Blacklist will consider executive bonus compensation dependent upon Blacklist meeting those strategic objectives and milestones and sufficient cash resources being available for the granting of bonuses. The board of directors of Blacklist approves executive bonus compensation dependent upon compensation levels based on information provided by issuers that are similar in size and scope to Blacklist's operations.

Equity Participation

Blacklist has no stock option plan currently in place.

Actions, Decisions or Policy Changes

Given the evolving nature of Blacklist's business, the board of directors of Blacklist continues to review the overall compensation plan for senior management so as to continue to address the objectives identified above.

Risks Associated with Blacklist's Compensation Practices

Blacklist's directors have not considered the implications of any risks to Blacklist associated with decisions regarding Blacklist's compensation program. Blacklist intends to formalize its compensation policies and practices and will take into consideration the implications of the risks associated with Blacklist's compensation program and how it might mitigate those risks.

Benefits and Perquisites

Blacklist does not offer any health insurance benefits to its NEOs.

Hedging by Named Executive Officers or Directors

Blacklist has not, to date, adopted a policy restricting its executive officers and directors from purchasing financial instruments, including, for greater certainty, prepaid variable forward contracts, equity swaps, collars, or units of exchange funds, which are designed to hedge or offset a decrease in market value of equity securities granted as compensation or held, directly or indirectly, by executive officers or directors.

Option-Based Awards

Not applicable.

Outstanding Share-Based Awards and Option-Based Awards

Blacklist does not have any incentive plans, pursuant to which compensation that depends on achieving certain performance goals or similar conditions within a specified period is awarded, earned, paid or payable to the NEOs.

Pension Plan Benefits

Blacklist does not have a pension plan that provides for payments or benefits to the NEOs at, following, or in connection with retirement.

Termination and Change of Control Benefits

Blacklist has no compensatory plan, contract or agreement with any NEO.

Director Compensation

The directors of Blacklist do not receive any compensation or fees in their capacity as directors or a committee chair. Other than described herein, there were no other arrangements under which directors were compensated by Blacklist during the two most recently completed financial years for their services in their capacity as directors.

No directors receive monthly compensation and no director receives compensation for attending board meetings or committee meetings.

Securities Authorized for Issuance

Not applicable.

17. INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

No director or officer of Zara or Blacklist or person who acted in such capacity in the last financial year of Zara or Blacklist, or proposed director or officer of the Resulting Issuer, or any Associate of any such director or officer is, or has been, at any time since the beginning of the most recently completed financial year of Zara or Blacklist, indebted to Zara or Blacklist nor is any indebtedness of any such person to another entity the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by Zara or Blacklist.

18. RISK FACTORS

The business of Blacklist, which will be the business of the Resulting Issuer upon completion of the Transaction, is subject to certain risks and uncertainties inherent in the cannabis industry. Prior to making any investment decision regarding Blacklist, or the Resulting Issuer as the case may be, investors should carefully consider, among other things, the risk factors set forth below.

While this Listing Statement has described the risks and uncertainties that management of Zara and Blacklist believe to be material to the Resulting Issuer's business, it is possible that other

risks and uncertainties affecting the Resulting Issuer's business will arise or become material in the future.

If the Resulting Issuer is unable to address these and other potential risks and uncertainties following the completion of the Transaction, its business, financial condition or results of operations could be materially and adversely affected. In this event, the value of the Resulting Issuer Shares could decline and an investor could lose all or part of their investment.

The following is a description of the principal risk factors that will affect the Resulting Issuer:

18.1 Business and Operational Risks

Completion of the Transaction

The completion of the Transaction is subject to several conditions precedent. There can be no assurances that the Transaction, either on the terms of the Share Exchange Agreement, the Amalgamation Agreement or as negotiated, will be completed. In the event that any of those conditions are not satisfied or waived, the Transaction may not be completed.

Limited Operating History

Blacklist, whose respective businesses will comprise the business of the Resulting Issuer, has only limited operating results to date. Blacklist has dedicated significant portions of its cash flows to creating infrastructure to capitalize on the opportunity for value creation that is emerging from the relaxing of state and local prohibitions on the cannabis industry in the United States and Canada. The Resulting Issuer's lack of extensive operating history makes it difficult for investors to evaluate the Resulting Issuer's prospects for success. Prospective investors should consider the risks and difficulties the Resulting Issuer might encounter, especially given the Resulting Issuer's lack of an extensive operating history or audited financial information. There is no assurance that the Resulting Issuer will be successful and the likelihood of success must be considered in light of its relatively early stage of operations.

Reliance on Management

The success of the Resulting Issuer is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management. While employment agreements or management agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on the Resulting Issuer's business, operating results, financial condition or prospects.

Additional Financing

The Resulting Issuer will require equity and/or debt financing to support on-going operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Resulting Issuer when needed or on terms which are acceptable. The Resulting Issuer's inability to raise financing to fund on-going operations, capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon the Resulting Issuer's business, results of operations, financial condition or prospects.

If additional funds are raised through further issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of Resulting Issuer Shares. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Resulting Issuer to obtain additional capital and to pursue business opportunities, including potential acquisitions.

Profitability of the Resulting Issuer

The Resulting Issuer may experience difficulties in its development process, such as capacity constraints, quality control problems or other disruptions, which would make it more difficult to generate profits. A failure by the Resulting Issuer to achieve a low-cost structure through economies of scale or improvements in manufacturing processes and design could have a material adverse effect on the Resulting Issuer's business, prospects, results of operations and financial condition.

Ongoing Costs and Obligations

The Resulting Issuer expects to incur significant ongoing costs and obligations related to its investment in infrastructure and growth and for regulatory compliance, which could have a material adverse impact on the Resulting Issuer's results of operations, financial condition and cash flows. In addition, future changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Resulting Issuer's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Resulting Issuer.

Raw Materials and Supply

In the cannabis industry, there is a risk that raw input materials or materials purchased from a third-party processor or producer could be contaminated with pesticides, heavy metals, mycotoxin, and microbial agents.

All recreational markets that sell our brands require quality assurance testing for each lot of final marijuana product and must be conducted by an independent, state certified, third-party testing laboratory with a statistically significant number of samples using acceptable methodologies to ensure that all lots manufactured of each marijuana product are adequately assessed for contaminants and the cannabinoid profile is correctly labeled for consumers. The quality assurance tests required for marijuana flowers and infused products currently include moisture content, potency analysis, foreign matter inspection, microbiological screening, and residual solvent levels.

The results of the inspection and testing are submitted to each state governing cannabis body through its traceability system. In conjunction with States Departments of Agriculture, each state board conducts random screening for pesticide residues. It is possible the much of cannabis product may not move forward in processing, delivery, or sale without a passing test for that lot reported by the independent lab itself into the traceability system. All test results are required to be provided to retailers and/or end consumers upon request.

If the Resulting Issuer's licensed processors and co-packagers or other third-party services providers fail to have positive testing results, the Resulting Issuer could experience negative adverse effect on its operations and ability to produce and sell its products.

Competition

It is likely that the Resulting Issuer will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and experience than the Resulting Issuer. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition, results of operations or prospects of the Resulting Issuer.

Because of the early stage of the industry in which the Resulting Issuer operates, the Resulting Issuer expects to face additional competition from new entrants. To become and remain competitive, the Resulting Issuer will require research and development, marketing, sales and support. The Resulting Issuer may not have sufficient resources to maintain research and development, marketing, sales and support efforts on a competitive basis which could materially and adversely affect the business, financial condition, results of operations or prospects of the Resulting Issuer.

If the number of users of medical cannabis in the United States increases, the demand for products will increase and the Resulting Issuer expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, the Resulting Issuer will require a continued high level of investment in research and development, marketing, sales and client support. The Resulting Issuer may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Resulting Issuer.

Future Acquisitions or Dispositions

Material acquisitions, dispositions and other strategic transactions involve a number of risks, including: (i) potential disruption of the Resulting Issuer's ongoing business; (ii) distraction of management; (iii) the Resulting Issuer may become more financially leveraged; (iv) the anticipated benefits and cost savings of those transactions may not be realized fully or at all or may take longer to realize than expected; (v) increasing the scope and complexity of the Resulting Issuer's operations; and (vi) loss or reduction of control over certain of the Resulting Issuer's assets.

The presence of one or more material liabilities of an acquired company that are unknown to the Resulting Issuer at the time of acquisition could have a material adverse effect on the business, results of operations, prospects and financial condition of the Resulting Issuer. A strategic transaction may result in a significant change in the nature of the Resulting Issuer's business, operations and strategy. In addition, the Resulting Issuer may encounter unforeseen obstacles or costs in implementing a strategic transaction or integrating any acquired business into the Resulting Issuer's operations.

Unfavorable Publicity or Consumer Perception

The Resulting Issuer believes the medical cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis produced. Consumer perception can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research or findings, regulatory investigations, litigation, media attention or other publicity will be favorable to the cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory investigations, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or other publicity could have a material adverse effect on the demand for medical cannabis and on the business, results of operations, financial condition, cash flows or prospects of the Resulting Issuer. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis in general, or associating the consumption of medical cannabis with illness or other negative effects or events, could have such a material adverse effect. There is no assurance that such adverse publicity reports or other media attention will not arise.

Product Liability

As a provider to manufacturers and distributors of products designed to facilitate cannabis ingestion by humans, the Resulting Issuer would face an inherent risk of exposure to product liability claims, regulatory action and litigation if its customers' products are alleged to have caused significant loss or injury. In addition, tampering by unauthorized third parties or product contamination with respect to the cannabis used in the Resulting Issuer's customers' products may impact the risk of injury to consumers. Previously unknown adverse reactions resulting from human consumption of cannabis alone or in combination with other medications or substances could occur. As a supplier to manufacturers and distributors of products designed to facilitate the consumption of medical cannabis, or in its role as an investor in or service provider to an entity that is a manufacturer, distributor and/or retailer of medical cannabis, the Resulting Issuer may be subject to various product liability claims, including, among others, that the cannabis product caused injury or illness, included inadequate instructions for use or included inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Resulting Issuer could result in increased costs, could adversely affect the Resulting Issuer's reputation with its clients and consumers generally, and could have a material adverse effect on the business, results of operations, financial condition or prospects of the Resulting Issuer. There can be no assurances that the Resulting Issuer will be able to maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to maintain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Resulting Issuer's potential products or otherwise have a material adverse effect on the business, results of operations, financial condition or prospects of the Resulting Issuer.

Product Recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. Such recalls cause unexpected expenses of the recall and any legal proceedings that might arise in connection with the recall. This can cause loss of a significant amount of sales. In addition, a product recall may require significant management attention. Although the Resulting Issuer will have detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the Resulting Issuer's brands were subject to recall, the image of that brand and the Resulting Issuer could be harmed. Additionally, product recalls can lead to increased scrutiny of operations by applicable regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Product Approvals

The Resulting Issuer may require advance approval of its products from federal, state, provincial and/or local authorities. While the Resulting Issuer intends to follow the guidelines and regulations of each applicable federal, state, provincial and/or local jurisdiction in preparing products for sale and distribution, there is no guarantee that such products will be approved to the extent necessary. If the products are approved, there is a risk that any federal, state, provincial and/or local jurisdiction may revoke its approval for such products based on changes in laws or regulations or based on its discretion or otherwise. If any of the Resulting Issuer's products are not approved or any existing approvals are rescinded, there is the potential to lead to a material adverse effect on the Resulting Issuer's business, financial condition, results of operations or prospects.

Product Exchanges, Returns and Warranty Claims

If the Resulting Issuer is unable to maintain an acceptable degree of quality control of its products, the Resulting Issuer will incur costs associated with the exchange and return of the products as well as servicing its customers for warranty claims. Any of the foregoing on a significant scale may have a material adverse effect on the Resulting Issuer's business, results of operations and financial condition.

Research and Development

Before the Resulting Issuer can obtain regulatory approval for the commercial sale of any of its products, it will be required to complete extensive trial testing to demonstrate safety and efficacy. Depending on the exact nature of trial testing, such trials can be expensive and are difficult to design and implement. The testing process is also time consuming and can often be subject to unexpected delays.

The timing and completion of trial testing may be subject to significant delays relating to various causes, including: inability to manufacture or obtain sufficient quantities of units and or test subjects for use in trial testing; delays arising from collaborative partnerships; delays in obtaining regulatory approvals to commence a study, or government intervention to suspend or

terminate a study; delays, suspensions or termination of trial testing due to the applicable institutional review board or independent ethics board responsible for overseeing the study to protect research subjects; delays in identifying and reaching agreement on acceptable terms with prospective trial testing sites and subjects; variability in the number and types of subjects available for each study and resulting difficulties in identifying and enrolling subjects who meet trial eligibility criteria; scheduling conflicts; difficulty in maintaining contact with subjects after testing, resulting in incomplete data; unforeseen safety issues or side effects; lack of efficacy during trial testing; reliance on research organizations to conduct trial testing, which may not conduct such trials with good laboratory practices; or other regulatory delays.

Difficulty in Developing Products

If the Resulting Issuer cannot successfully develop, manufacture and distribute its products, or if the Resulting Issuer experiences difficulties in the development process, such as capacity constraints, quality control problems or other disruptions, the Resulting Issuer may not be able to develop market-ready commercial products at acceptable costs, which would adversely affect the Resulting Issuer's ability to effectively enter the market. A failure by the Resulting Issuer to achieve a low-cost structure through economies of scale would have a material adverse effect on the Resulting Issuer's commercialization plans and the Resulting Issuer's business, prospects, results of operations and financial condition.

Success of New and Existing Products and Services

The Resulting Issuer has committed, and expects to continue to commit, significant resources and capital to develop and market new products and services. These products and services are relatively untested, and the Resulting Issuer cannot guarantee that it will achieve market acceptance for any new products and services that the Resulting Issuer may offer in the future. Moreover, these and other new products and services may be subject to significant competition with offerings by new and existing competitors in the business of manufacturing and distributing vaporizers and accessories. In addition, new products, services and enhancements may pose a variety of technical challenges and require the Resulting Issuer to attract additional qualified employees. The failure to successfully develop and market these new products, services or enhancements or to hire qualified employees could seriously harm the Resulting Issuer's business, financial condition and results of operations.

Continued Market Acceptance by Consumers

The Resulting Issuer is substantially dependent on continued market acceptance of its products by consumers. Although the Resulting Issuer believe that the use of products similar to the products to be designed and manufactured by the Resulting Issuer is gaining international acceptance, the Resulting Issuer cannot predict the future growth rate and size of this market.

Promoting and Maintaining Brands

The Resulting Issuer believes that establishing and maintaining the brand identities of products is a critical aspect of attracting and expanding a large customer base. Promotion and enhancement of brands will depend largely on success in providing high quality products. If customers and end users do not perceive the Resulting Issuer's products to be of high quality, or if the Resulting Issuer introduces new products or enters into new business ventures that are not favorably

received by customers and end users, the Resulting Issuer will risk diluting brand identities and decreasing their attractiveness to existing and potential customers. Moreover, in order to attract and retain customers and to promote and maintain brand equity in response to competitive pressures, the Resulting Issuer may have to increase substantially financial commitment to creating and maintaining a distinct brand loyalty among customers. If the Resulting Issuer incurs significant expenses in an attempt to promote and maintain brands, the business, results of operations and financial condition could be adversely affected.

Director and Officer Control of Resulting Issuer Shares

Following the completion of the Transaction, the officers and directors of the Resulting Issuer own approximately 41.3% of the issued and outstanding Resulting Issuer Shares. The Resulting Issuer's shareholders nominate and elect the Board of Directors, which generally has the ability to control the acquisition or disposition of the Resulting Issuer's assets, and the future issuance of Resulting Issuer Shares. Accordingly, for any matters with respect to which a majority vote of the Resulting Issuer Shares may be required by law, the Resulting Issuer's directors and officers may have the ability to control such matters. Because the directors and officers control a substantial portion of such Resulting Issuer Shares, investors may find it difficult or impossible to replace the Resulting Issuer's directors if they disagree with the way the Resulting Issuer's business is being operated.

Results of Future Clinical Research

Research in Canada, the U.S. and internationally regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis or isolated cannabinoids (such as CBD and THC) remains in early stages. There have been relatively few clinical trials on the benefits of cannabis or isolated cannabinoids (such as CBD and THC). Although the Issuer and Blacklist believe that the articles, reports and studies support their respective beliefs regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis, future research and clinical trials may prove such statements to be incorrect, or could raise concerns regarding, and perceptions relating to, cannabis. Given these risks, uncertainties and assumptions, prospective purchasers of the Resulting Issuer Shares should not place undue reliance on such articles and reports. Future research studies and clinical trials may draw opposing conclusions or reach negative conclusions regarding the medical benefits, viability, safety, efficacy, dosing, social acceptance or other facts and perceptions related to cannabis, which could have a material adverse effect on the demand for the Resulting Issuer's products with the potential to lead to a material adverse effect on the Resulting Issuer's business, financial condition, results of operations or prospects.

Reliance on Key Inputs

The distribution business is dependent on a number of key inputs and their related costs including raw materials and supplies related to product development and manufacturing operations. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the Resulting Issuer's business, financial condition, results of operations or prospects. Some of these inputs may only be available from a single supplier or a limited group of suppliers. If a sole source supplier was to go out of business, the Resulting Issuer might be unable to find a replacement for such source in a timely manner or at all. If a sole source supplier were to be acquired by a competitor, that competitor may elect not

to sell to the Resulting Issuer in the future. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition, results of operations or prospects of the Resulting Issuer.

Dependence on Suppliers and Skilled Labour

The ability of the Resulting Issuer to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. No assurances can be given that the Resulting Issuer will be successful in maintaining its required supply of skilled labour, equipment, parts and components. It is also possible that the final costs of the major equipment contemplated by the Resulting Issuer's capital expenditure plans may be significantly greater than anticipated by the Resulting Issuer's management, and may be greater than funds available to the Resulting Issuer, in which circumstance the Resulting Issuer may curtail, or extend the timeframes for completing, its capital expenditure plans. This could have an adverse effect on the Resulting Issuer's business, financial condition, results of operations or prospects.

Difficulty to Forecast

The Resulting Issuer must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the industry. A failure in the demand for its products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations, financial condition or prospects of the Resulting Issuer.

Management of Growth

The Resulting Issuer may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Resulting Issuer to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Resulting Issuer to deal with this growth may have a material adverse effect on the Resulting Issuer's business, financial condition, results of operations or prospects.

Internal Controls

Effective internal controls are necessary for the Resulting Issuer to provide reliable financial reports and to help prevent fraud. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Resulting Issuer's results of operations or cause it to fail to meet its reporting obligations. If the Resulting Issuer or its auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Resulting Issuer's consolidated financial statements and materially adversely affect the trading price of the Resulting Issuer Shares.

Conflicts of Interest

Certain of the directors and officers of the Resulting Issuer are, or may become directors and officers of other companies, and conflicts of interest may arise between their duties as officers and directors of the Resulting Issuer and as officers and directors of such other companies.

Litigation

The Resulting Issuer may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Resulting Issuer becomes involved be determined against the Resulting Issuer, such a decision could adversely affect the Resulting Issuer's ability to continue operating and the market price for the Resulting Issuer Shares. Even if the Resulting Issuer is involved in litigation and wins, litigation can redirect significant company resources.

Intellectual Property Risks

The Resulting Issuer will have certain proprietary intellectual property, including but not limited to brands, trademarks, trade names, patents and proprietary processes. The Resulting Issuer will rely on this intellectual property, know-how and other proprietary information, and may require employees, consultants and suppliers to sign confidentiality agreements. However, any confidentiality agreement may be breached, and the Resulting Issuer may not have adequate remedies for such breaches. Third parties may independently develop substantially equivalent proprietary information without infringing upon any proprietary technology. Third parties may otherwise gain access to the Resulting Issuer's proprietary information and adopt it in a competitive manner. Any loss of intellectual property protection may have a material adverse effect on the Resulting Issuer's business, results of operations or prospects.

As long as cannabis remains illegal under U.S. federal law as a Schedule I controlled substance pursuant to the *Controlled Substances Act*, the benefit of certain federal laws and protections which may be available to most businesses, such as federal trademark and patent protection regarding the intellectual property of a business, may not be available to the Resulting Issuer. As a result, the Resulting Issuer's intellectual property may never be adequately or sufficiently protected against the use or misappropriation by third-parties. In addition, since the regulatory framework of the cannabis industry is in a constant state of flux, the Resulting Issuer can provide no assurance that it will ever obtain any protection of its intellectual property, whether on a federal, state, provincial and/ or local level.

Fraudulent Or Illegal Activity by Employees, Contractors And Consultants

The Resulting Issuer is exposed to the risk that its employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to the Resulting Issuer that violates: (i) government regulations; (ii) manufacturing standards; (iii) federal and provincial healthcare fraud and abuse laws and regulations; or (iv) laws that require the true, complete and accurate reporting of financial information or data. It may not always be possible for the Resulting Issuer to identify and deter misconduct by its employees and other third parties, and the precautions taken by the Resulting Issuer to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Resulting Issuer from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against the Resulting Issuer, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on the Resulting Issuer's business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of the

Resulting Issuer's operations, any of which could have a material adverse effect on the Resulting Issuer's business, financial condition, results of operations or prospects.

Information Technology Systems and Cyber-Attacks

The Resulting Issuer's operations depend, in part, on how well it and its suppliers protect networks, equipment, IT systems and software against damage from a number of threats, including, but not limited to, cable cuts, damage to physical plants, natural disasters, intentional damage and destruction, fire, power loss, hacking, computer viruses, vandalism and theft. The Resulting Issuer's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. The failure of information systems or a component of information systems could, depending on the nature of any such failure, adversely impact the Resulting Issuer's reputation and results of operations.

The Resulting Issuer has not experienced any material losses to date relating to cyber-attacks or other information security breaches, but there can be no assurance that the Resulting Issuer will not incur such losses in the future. The Resulting Issuer's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access is a priority. As cyber threats continue to evolve, the Resulting Issuer may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

Security Breaches

Given the nature of the Resulting Issuer's product and its lack of legal availability outside of channels approved by the Government of the United States, as well as the concentration of inventory in its facilities, despite meeting or exceeding all legislative security requirements, there remains a risk of shrinkage as well as theft. A security breach at one of the Resulting Issuer's facilities could expose the Resulting Issuer to additional liability and to potentially costly litigation, increase expenses relating to the resolution and future prevention of these breaches and may deter potential patients from choosing the Resulting Issuer's products.

Operating Risks and Insurance

The Resulting Issuer's operations will be subject to hazards inherent in the medical cannabis industry, such as equipment defects, malfunction and failures, natural disasters which result in fires, accidents and explosions that can cause personal injury, loss of life, suspension of operations, damage to facilities, business interruption and damage to or destruction of property, equipment and the environment, labour disputes, and changes in the regulatory environment. These risks could expose the Resulting Issuer to substantial liability for personal injury, wrongful death, property damage, pollution, and other environmental damages. The frequency and severity of such incidents will affect operating costs, insurability and relationships with customers, employees and regulators.

The Resulting Issuer will continuously monitor its operations for quality control and safety. However, there are no assurances that the Resulting Issuer's safety procedures will always prevent such damages. Although the Resulting Issuer will maintain insurance coverage that it believes to be adequate and customary in the industry, there can be no assurance that such insurance will be adequate to cover its liabilities. In addition, there can be no assurance that the Resulting Issuer will be able to maintain adequate insurance in the future at rates it considers reasonable and commercially justifiable. The occurrence of a significant uninsured claim, a claim in excess of the insurance coverage limits then maintained by the Resulting Issuer, or a claim at a time when it is not able to obtain liability insurance, could have a material adverse effect on the Resulting Issuer, the Resulting Issuer's ability to conduct normal business operations and on the Resulting Issuer's business, financial condition, results of operations and cash flows in the future.

Uninsured or Uninsurable Risk

The Resulting Issuer may be subject to liability for risks against which it cannot insure or against which the Resulting Issuer may elect not to insure due to the high cost of insurance premiums or other factors. The payment of any such liabilities would reduce the funds available for the Resulting Issuer's normal business activities. Payment of liabilities for which the Resulting Issuer does not carry insurance may have a material adverse effect on the Resulting Issuer's financial position and operations.

Issuance of Debt

From time to time, the Resulting Issuer may enter into transactions to acquire assets or the shares of other organizations. These transactions may be financed in whole or in part with debt, which may increase the Resulting Issuer's debt levels above industry standards for companies of similar size. Depending on future exploration and development plans, the Resulting Issuer may require additional equity and/or debt financing that may not be available or, if available, may not be available on favourable terms to the Resulting Issuer. Neither the Resulting Issuer's notice of articles nor its articles will limit the amount of indebtedness that the Resulting Issuer may incur. As a result, the level of the Resulting Issuer's indebtedness from time to time, could impair its ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

Dilution

The Resulting Issuer may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Resulting Issuer which may be dilutive to the other shareholders and any new equity securities issued could have rights, preferences and privileges superior to those of holders of Resulting Issuer Shares.

Financial Projections May Prove Materially Inaccurate or Incorrect

The Resulting Issuer's financial estimates, projections and other forward-looking information accompanying this Listing Statement were prepared by Zara and Blacklist without the benefit of reliable historical industry information or other information customarily used in preparing such estimates, projections and other forward-looking information. Such forward-looking information is based on assumptions of future events that may or may not occur, which assumptions may not

be disclosed in such documents. Investors should research Zara and Blacklist and become familiar with the assumptions underlying any estimates, projections or other forward-looking information. Projections are inherently subject to varying degrees of uncertainty and their achievability depends on the timing and probability of a complex series of future events. There is no assurance that the assumptions upon which these projections are based will be realized. Actual results may differ materially from projected results for a number of reasons including increases in operation expenses, changes or shifts in regulatory rules, undiscovered and unanticipated adverse industry and economic conditions, and unanticipated competition. Accordingly, investors should not rely on any projections to indicate the actual results the Resulting Issuer might achieve.

Certain Remedies and Rights to Indemnification may be Limited

The Resulting Issuer's governing documents will provide that the liability of its board of directors and officers is eliminated to the fullest extent allowed under the laws of the Province of British Columbia and the federal laws of Canada applicable therein. Thus, the Resulting Issuer and the shareholders of the Resulting Issuer may be prevented from recovering damages for alleged errors or omissions made by the members of the board of directors of the Resulting Issuer and its officers. The Resulting Issuer's governing documents will also provide that the Resulting Issuer will, to the fullest extent permitted by law, indemnify members of the board of directors of the Resulting Issuer and its officers for certain liabilities incurred by them by virtue of their acts on behalf of the Resulting Issuer.

Going-Concern Risk

The *pro forma* financial statements of the Resulting Issuer have been prepared on a going concern basis under which an entity is considered to be able to realize its assets and satisfy its liabilities in the ordinary course of business. The Resulting Issuer's future operations are dependent upon the identification and successful completion of equity or debt financing and the achievement of profitable operations at an indeterminate time in the future. There can be no assurances that the Resulting Issuer will be successful in completing an equity or debt financing or in achieving profitability. The *pro forma* financial statements do not give effect to any adjustments relating to the carrying values and classification of assets and liabilities that would be necessary should the Resulting Issuer be unable to continue as a going concern.

Client Acquisitions

The Resulting Issuer's success depends on its ability to attract and retain clients. There are many factors which could impact the Resulting Issuer's ability to attract and retain clients, including but not limited to the Resulting Issuer's ability to continually produce desirable and effective products, the successful implementation of the Resulting Issuer's client-acquisition plan and continued growth in the aggregate number of consumers choosing to use cannabis either recreationally or medically. The Resulting Issuer's failure to acquire and retain customers would have a material adverse effect on the Resulting Issuer's business, operating results and financial condition.

Credit Risk

The Resulting Issuer will be exposed to credit risk through its cash and cash equivalents. Credit risk arises from deposits with banks and outstanding receivables. The Resulting Issuer does not hold any collateral as security but mitigates this risk by dealing only with what management believes to be financially sound counterparties and, accordingly, does not anticipate significant loss for non-performance.

18.2 Industry and Regulatory Risks

Regulatory Regime

The business and activities of the Resulting Issuer are heavily regulated in all jurisdictions where it will carry on business. The Resulting Issuer's operations will be subject to various laws, regulations and guidelines by governmental authorities. Laws and regulations, applied generally, grant government agencies and self-regulatory bodies broad administrative discretion over the activities of the Resulting Issuer, including the power to limit or restrict business activities as well as impose additional disclosure requirements on the Resulting Issuer's products and services. Achievement of the Resulting Issuer's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Resulting Issuer cannot predict the impact of the compliance regime that is implementing for the United States cannabis industry. Similarly, the Resulting Issuer cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Resulting Issuer.

The Resulting Issuer will incur ongoing costs and obligations related to regulatory compliance in both Canada and the United States. Failure to comply with regulations may lead to possible sanctions including the revocation or imposition of additional conditions on licenses to operate the Resulting Issuer's business, the suspension or expulsion from a particular market or jurisdiction or of its key personnel, and the imposition of fines and censures. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Resulting Issuer's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Resulting Issuer.

Changes in Laws, Regulations and Guidelines

The Resulting Issuer's operations will be subject to various laws, regulations, guidelines and licensing requirements both in Canada, the United States and abroad. While, with the exception of United States federal laws and regulations which continue to classify cannabis as a Schedule I controlled substance, the Resulting Issuer is expected to be in compliance with all such laws, any changes to such laws, regulations, guidelines and policies due to matters beyond the control of the Resulting Issuer could have a material adverse effect on the Resulting Issuer's business, results of operations and financial condition. In particular, any amendment to or replacement of the Cannabis Act, may cause adverse effects to the Resulting Issuer's operations. Additionally,

as noted above, cannabis remains a Schedule I controlled substance under United States federal law, and the Resulting Issuer's activities in the states of the United States in which the Resulting Issuer operates may constitute a violation of United States federal criminal laws applicable to such conduct, including, but not limited to, the *Controlled Substances Act*, anti-money laundering laws, and the *Racketeer Influenced and Corrupt Organizations Act*.

On April 13, 2017, the Canadian Federal Government put forward proposed legislation, the Cannabis Act, outlining the framework for the legalization of adult use cannabis, as well as laws to address drug-impaired driving, protect public health and safety and prevent youth access to cannabis. The provincial and municipal governments have been given explicit authority by the Federal Government to provide regulations regarding retail and distribution, as well as the ability to alter some of the existing baselines, such as increasing the minimum age for purchase and consumption. On June 21, 2018, the Cannabis Act received Royal Assent and came into force on October 17, 2018. The ACMPR will continue to operate in tandem with the recreational regime, and will be re-evaluated within five years of the Cannabis Act coming into force. Although the impact of such changes is uncertain and highly dependent on which specific laws or regulations are changed, the impact on the Resulting Issuer should be comparable to other companies in the same business as the Resulting Issuer.

Constraints on Marketing Products

The development of the Resulting Issuer's business and operating results may be hindered by applicable restrictions on sales and marketing activities imposed by government regulatory bodies. The regulatory environment in Canada and the United States, and the legal environment in the United States—particularly the existence of federal criminal laws that may prohibit certain marketing of cannabis or cannabis products limits companies' abilities to compete for market share in a manner similar to other industries. If the Resulting Issuer is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for its products, the Resulting Issuer's sales and results of operations could be adversely affected.

Environmental Risk and Regulation

The Resulting Issuer's operations are subject to environmental regulation in the various jurisdictions in which it will operate. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors (or the equivalent thereof) and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Resulting Issuer's operations.

Government approvals and permits are currently, and may in the future, be required in connection with the Resulting Issuer's operations.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities

causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. The Resulting Issuer may be required to compensate those suffering loss or damage by reason of its operations and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing the production of medical cannabis, or more stringent implementation thereof, could have a material adverse impact on the Resulting Issuer and cause increases in expenses, capital expenditures or production costs or reduction in levels of production or require abandonment or delays in development.

Public Opinion and Perception

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. Public opinion and support for medical and adult-use cannabis has traditionally been inconsistent and varies from jurisdiction to jurisdiction. While public opinion and support appears to be rising for legalizing medical and adult-use cannabis, it remains a controversial issue subject to differing opinions surrounding the level of legalization (for example, medical cannabis as opposed to legalization in general). A negative shift in the public's perception of cannabis in Canada, the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical and/or adult-use cannabis, thereby limiting the number of new state jurisdictions into which the Resulting Issuer could expand. Any inability to fully implement the Resulting Issuer's expansion strategy may have a material adverse effect on its business, results of operations or prospects.

Economic Environment

The Resulting Issuer's operations could be affected by general the economic context conditions should the unemployment level, interest rates or inflation reach levels that influence consumer trends, and consequently, impact the Resulting Issuer's sales and profitability. As well, general demand for banking services and alternative banking or financial services cannot be predicted and future prospects of such areas might be different from those predicted by the Resulting Issuer's management.

Global Financial Conditions

Following the onset of the credit crisis in 2008, global financial conditions were characterized by extreme volatility and several major financial institutions either went into bankruptcy or were rescued by governmental authorities. While global financial conditions subsequently stabilized, there remains considerable risk in the system given the extraordinary measures adopted by government authorities to achieve that stability. Global financial conditions could suddenly and rapidly destabilize in response to future economic shocks, as government authorities may have limited resources to respond to future crises.

Future economic shocks may be precipitated by a number of causes, including a rise in the price of oil, geopolitical instability and natural disasters. Any sudden or rapid destabilization of global economic conditions could impact the Resulting Issuer's ability to obtain equity or debt

financing in the future on terms favourable to the Resulting Issuer. Additionally, any such occurrence could cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. Further, in such an event, the Resulting Issuer's operations and financial condition could be adversely impacted.

Furthermore, general market, political and economic conditions, including, for example, inflation, interest and currency exchange rates, structural changes in the cannabis industry, supply and demand for commodities, political developments, legislative or regulatory changes, social or labour unrest and stock market trends will affect the Resulting Issuer's operating environment and its operating costs, profit margins and share price. Any negative events in the global economy could have a material adverse effect on the Resulting Issuer's business, financial condition, results of operations or prospects.

18.3 Risks Specifically Related to the United States

Cannabis Continues to be a Controlled Substance under the United States Federal Controlled Substances Act

The Resulting Issuer will be directly engaged in the medical and adult-use cannabis industry in the U.S. in those states which have legalized medical and adult-use cannabis, however all such activities remain illegal under U.S. federal law. Investors are cautioned that even in those states in the U.S. which have legalized medical or adult-use cannabis, the growing, processing, and distribution of cannabis is highly regulated. To our knowledge, there are to date a total of 33 states, and the District of Columbia, Puerto Rico and Guam that have legalized medical cannabis in some form, including California, although not all states have fully implemented their legalization programs. Ten states and the District of Columbia have legalized cannabis for adult use. Fifteen additional states have legalized high-CBD, low THC oils for a limited class of patients. But cannabis continues to be categorized as a Schedule I controlled substance under the federal Controlled Substances Act (21 U.S.C.A. § 801, *et seq.*). A Schedule I drug is considered to have a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the substance under medical supervision. Federal law prohibits commercial production and sale of Schedule I controlled substances, and as such, cannabis-related activities, including without limitation, the importation, cultivation, manufacture, distribution, sale and possession of cannabis remain illegal under U.S. federal law. It is also illegal to aid or abet such activities or to conspire or attempt to engage in such activities. Strict compliance with state and local laws with respect to cannabis may neither absolve the Resulting Issuer of liability under U.S. federal law, nor provide a defense to any federal proceeding brought against the Resulting Issuer. An investor's contribution to and involvement in such activities may result in federal civil and/or criminal prosecution, including, but not limited to, forfeiture of his, her or its entire investment, fines, and/or imprisonment.

An appropriations rider contained in the fiscal year 2015, 2016, 2017, and 2018 Consolidated Appropriations Acts (formerly known as the "Rohrabacher-Farr" Amendment; now known as the "Rohrabacher-Blumenauer Amendment" and currently proposed for the next appropriations rider as the "Joyce Amendment", referred to herein as the "**Amendment**") prohibits the federal government from spending funds to prevent states which have legalized medical cannabis from implementing state laws. The Ninth Circuit Court of Appeals and other courts have interpreted the language to mean that the DOJ cannot expend funds to prosecute state-law-abiding medical

cannabis operators complying strictly with state medical cannabis laws. The Amendment prohibits the federal government from using congressionally appropriated funds to prevent states from implementing their own medical cannabis laws. The Amendment remained in effect through until February 15, 2019. The current appropriations bill contains the Amendment but has not yet been passed in Congress. Continued reauthorization of the Amendment is predicated on future political developments and cannot be guaranteed. If the Amendment expires, federal prosecutors could prosecute even state-compliant medical cannabis operators for conduct within the five-year statute of limitations. The Amendment does not prohibit the DOJ from spending funds to prevent states from implementing adult-use cannabis laws, including by spending funds to prosecute people who are operating in accordance with state adult-use cannabis laws.

Violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges and penalties, including, but not limited to, disgorgement of profits, cessation of business activities, divestiture, forfeiture of property or funds or prison time. This could have a material adverse effect on the Resulting Issuer, including its reputation and ability to conduct business, its holding (directly or indirectly) of medical and adult-use cannabis licenses in the U.S., the listing of its securities on the CSE, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Resulting Issuer to estimate the time or resources that would be needed for the investigation or defense of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

Uncertainty Surrounding Existing Protection from U.S. Federal Prosecution

Pursuant to the Amendment, until September 30, 2018, the DOJ was prohibited from expending any funds to prevent states from implementing their own medical cannabis laws. The Amendment remains in effect while the fiscal year 2018 budget is continued by short term budget resolutions, but if the Amendment or an equivalent thereof is not successfully included in the next or any subsequent federal omnibus spending bill, the protection which has been afforded thereby to U.S. medical cannabis businesses in the past would lapse, and such businesses would be subject to a higher risk of prosecution under federal law. Although unlikely, there is a possibility that all amendments may be banned from federal omnibus spending bills, and if this occurs and the substantive provisions are not included in the base federal omnibus spending bill or other law, these protections would lapse.

Approach to Federal Enforcement of Cannabis Laws may be Subject to Change

As a result of the conflicting views between states and the federal government regarding cannabis, investments in, and the operations of, cannabis businesses in the U.S. are subject to inconsistent laws and regulations. The so-called “Cole Memo” issued by former Deputy Attorney General James Cole on August 29, 2013 and other Obama-era cannabis policy guidance, discussed below, provided the framework for managing the tension between federal and state cannabis laws. Subsequently, as discussed below, then Attorney General Jeff Sessions rescinded the Cole Memo and related policy guidance. Although no longer in effect, these policies, and the enforcement priorities established within, appear to continue to be followed

during the Trump administration and remain critical factors that inform the past and future trend of state-based legalization.

The Cole Memo directed U.S. Attorneys not to prioritize the enforcement of federal cannabis laws against individuals and businesses that comply with state medical or adult-use cannabis regulatory programs, provided certain enumerated enforcement priorities (such as diversion or sale of cannabis to minors) were not implicated. In addition to general prosecutorial guidance issued by the DOJ, the U.S. Department of the Treasury's Financial Crimes Enforcement Network issued the FinCEN Memorandum on February 14, 2014 outlining Bank Secrecy Act-compliant pathways for financial institutions to service state-sanctioned cannabis businesses, which echoed the enforcement priorities outlined in the Cole Memo. On the same day the FinCEN Memorandum was published, the DOJ issued complimentary policy guidance directing prosecutors to apply the enforcement priorities of the Cole Memo when determining whether to prosecute individuals or institutions with crimes related to financial transactions involving the proceeds of cannabis-related activities (the "**Cole Banking Memorandum**").

On January 4, 2018, then Attorney General Jeff Sessions rescinded the Cole Memo, the Cole Banking Memorandum, and all other related Obama-era DOJ cannabis enforcement guidance. While the rescission did not change federal law, as the Cole Memo and other DOJ guidance documents were not themselves laws, the rescission removed the DOJ's formal policy that state-regulated cannabis businesses in compliance with the Cole Memo guidelines should not be a prosecutorial priority. Notably, Attorney General Sessions' rescission of the Cole Memo and the Cole Banking Memorandum has not affected the status of the FinCEN Memorandum issued by the Department of Treasury, which remains in effect. In addition to his rescission of the Cole Memo, Attorney General Sessions issued the Sessions Memorandum. The Sessions Memorandum explains the DOJ's rationale for rescinding all past DOJ cannabis enforcement guidance, claiming that Obama-era enforcement policies are "unnecessary" due to existing general enforcement guidance adopted in the 1980s, in chapter 9.27.230 of the USAM. The USAM enforcement priorities, like those of the Cole Memo, are based on the use of the federal government's limited resources and include "law enforcement priorities set by the Attorney General," the "seriousness" of the alleged crimes, the "deterrent effect of criminal prosecution," and "the cumulative impact of particular crimes on the community." Although the Sessions Memorandum emphasizes that cannabis is a federally illegal Schedule I controlled substance, it does not otherwise instruct U.S. Attorneys to consider the prosecution of cannabis-related offenses a DOJ priority, and in practice, most U.S. Attorneys have not changed their prosecutorial approach to date. However, due to the lack of specific direction in the Sessions Memorandum as to the priority federal prosecutors should ascribe to such cannabis activities, there can be no assurance that the federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law.

Such potential proceedings could involve significant restrictions being imposed upon the Resulting Issuer or third parties, while diverting the attention of key executives. Such proceedings could have a material adverse effect on the Resulting Issuer's business, revenues, operating results and financial condition as well as the Resulting Issuer's reputation and prospects, even if such proceedings were concluded successfully in favour of the Resulting Issuer. In the extreme case, such proceedings could ultimately involve the criminal prosecution of key executives of the Resulting Issuer, the seizure of corporate assets, and consequently, the inability of the Resulting Issuer to continue its business operations. Strict compliance with state

and local laws with respect to cannabis does not absolve the Resulting Issuer of potential liability under U.S. federal law, nor provide a defense to any federal proceeding which may be brought against the Resulting Issuer. Any such proceedings brought against the Resulting Issuer may adversely affect the Resulting Issuer's operations and financial performance.

Risks Associated with Banking, Financial Transactions, and Anti-Money Laundering Laws and Regulations

The Resulting Issuer will be subject to a variety of laws and regulations domestically and in the U.S. that involve money laundering, financial recordkeeping and proceeds of crime, including the *Bank Secrecy Act*, as amended by *Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001* (USA PATRIOT Act), the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (Canada), as amended and the rules and regulations thereunder, the *Criminal Code* (Canada) and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the U.S. and Canada. Since the cultivation, manufacture, distribution and sale of cannabis remains illegal under the Controlled Substances Act, banks and other financial institutions providing services to cannabis-related businesses risk violation of federal anti-money laundering statutes (18 U.S.C. §§ 1956 and 1957), the unlicensed money-remitter statute (18 U.S.C. § 1960) and the Bank Secrecy Act, among other applicable federal statutes. Banks or other financial institutions that provide cannabis businesses with financial services such as a checking account or credit card in violation of the *Bank Secrecy Act* could be criminally prosecuted for willful violations of money laundering statutes, in addition to being subject to other criminal, civil, and regulatory enforcement actions. Banks often refuse to provide banking services to businesses involved in the cannabis industry due to the present state of the laws and regulations governing financial institutions in the U.S. The lack of banking and financial services presents unique and significant challenges to businesses in the cannabis industry. The potential lack of a secure place in which to deposit and store cash, the inability to pay creditors through the issuance of checks and the inability to secure traditional forms of operational financing, such as lines of credit, are some of the many challenges presented by the unavailability of traditional banking and financial services. These statutes can impose criminal liability for engaging in certain financial and monetary transactions with the proceeds of a "specified unlawful activity" such as distributing controlled substances which are illegal under federal law, including cannabis, and for failing to identify or report financial transactions that involve the proceeds of cannabis-related violations of the Controlled Substances Act. The Resulting Issuer may also be exposed to the foregoing risks.

As previously introduced, in February 2014, FinCEN issued the FinCen Memorandum providing instructions to banks seeking to provide services to cannabis-related businesses. The FinCEN Memorandum states that in some circumstances, it is permissible for banks to provide services to cannabis-related businesses without risking prosecution for violation of the Bank Secrecy Act. It refers to supplementary guidance that former Deputy Attorney General James M. Cole issued to federal prosecutors relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the Controlled Substances Act. Although the FinCEN Memorandum remains in effect today, it is unclear at this time whether the current administration will follow the guidelines of the FinCEN Memorandum. Overall, the DOJ continues to have the right and power to prosecute crimes committed by banks and financial institutions, such as money laundering and violations of the Bank Secrecy Act, that occur in any

state, including in states that have legalized the applicable conduct and the DOJ's current enforcement priorities could change for any number of reasons. A change in the DOJ's enforcement priorities could result in the DOJ prosecuting banks and financial institutions for crimes that previously were not prosecuted. If the Resulting Issuer does not have access to a U.S. banking system, its business and operations could be adversely affected.

The Racketeer Influenced Corrupt Organizations Act ("RICO") may also criminalize cannabis-related activities. RICO is a federal statute providing criminal penalties in addition to a civil cause of action for acts performed as part of an ongoing criminal organization. Under RICO, it is unlawful for any person who has received income derived from a pattern of racketeering activity (which includes most felonious violations of the CSA), to use or invest any of that income in the acquisition of any interest, or the establishment or operation of, any enterprise which is engaged in interstate commerce. RICO also authorizes private parties whose properties or businesses are harmed by such patterns of racketeering activity to initiate a civil action against the individuals involved. Although RICO suits against the cannabis industry are rare, a few cannabis businesses have been subject to a civil RICO action. Defending such a case has proven extremely costly, and potentially fatal to a business' operations.

In the event that any of the Resulting Issuer's operations, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such operations in the United States were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize our ability to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada, and subject the Resulting Issuer to civil and/or criminal penalties. Furthermore, while there are no current intentions to declare or pay dividends on the Resulting Issuer Shares in the foreseeable future, in the event that a determination was made that the Resulting Issuer's proceeds from operations (or any future operations or investments in the United States) could reasonably be shown to constitute proceeds of crime, we may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time. The Resulting Issuer could likewise be required to suspend or cease operations entirely.

Federal and State Forfeiture Laws

Violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, seizure of assets, disgorgement of profits, cessation of business activities or divestiture. As an entity that conducts business in the cannabis industry, the Resulting Issuer will be potentially subject to federal and state forfeiture laws (criminal and civil) that permit the government to seize the proceeds of criminal activity. Civil forfeiture laws could provide an alternative for the federal government or any state (or local police force) that wants to discourage residents from conducting transactions with cannabis related businesses but believes criminal liability is too difficult to prove beyond a reasonable doubt. Also, an individual can be required to forfeit property considered to be the proceeds of a crime even if the individual is not convicted of the crime, and the standard of proof in a civil forfeiture matter is lower than the standard in a criminal matter. Depending on the applicable law, whether federal or state, rather than having to establish liability beyond a reasonable doubt, the federal government or the state, as applicable,

may be required to prove that the money or property at issue is proceeds of a crime only by either clear and convincing evidence or a mere preponderance of the evidence.

Members of the Resulting Issuer located in states where cannabis remains illegal may be at risk of prosecution under federal and/or state conspiracy, aiding and abetting, and money laundering statutes, and be at further risk of losing their investments or proceeds under forfeiture statutes. Many states remain fully able to take action to prevent the proceeds of cannabis businesses from entering their state. Because state legalization is relatively new, it remains to be seen whether these states would take such action and whether a court would approve it. Members and prospective members of the Resulting Issuer should be aware of these potentially relevant federal and state laws in considering whether to invest in the Resulting Issuer.

Risk of Heightened Scrutiny by Regulatory Authorities

For the reasons set forth above, intended operations of the Resulting Issuer (and currently of the Constituents) in the United States, and any future operations or investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Resulting Issuer may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on our ability to operate or invest in the United States or any other jurisdiction, in addition to those described herein.

It has been reported by certain publications in Canada that The Canadian Depository for Securities Limited is considering a policy shift that would see its subsidiary, CDS, refuse to settle trades for cannabis issuers that have investments in the United States. CDS is Canada's central securities depository, clearing and settlement hub settling trades in the Canadian equity, fixed income and money markets. CDS or its parent company has not issued any public statement in regard to these reports. If CDS were to proceed in the manner suggested by these publications, and apply such a policy to the Resulting Issuer, it would have a material adverse effect on the ability of holders of Resulting Issuer Shares to make trades. In particular, the Resulting Issuer Shares would become highly illiquid as investors would have no ability to effect a trade of the Resulting Issuer Shares through the facilities of a stock exchange.

In the United States, many clearing houses for major broker-dealer firms, including Pershing LLC, the largest clearing, custody and settlement firm in the United States, have refused to handle securities or settle transactions of companies engaged in cannabis related business. Many other clearing firms have taken a similar approach. This means that certain broker-dealers cannot accept for deposit or settle transactions in the securities of companies, which may inhibit the ability of investors to trade in our securities and could negatively affect the liquidity of our securities.

In addition, on November 24, 2017, the TMX Group provided an update regarding issuers with cannabis-related activities in the United States and confirmed that TMX Group will rely on the Canadian Securities Administrators' recommendation to defer to individual exchange's rules for companies that have cannabis-related activities in the United States and to determine the eligibility of individual issuers to list based on those exchanges' listing requirements. On February 8, 2018, CDS signed a memorandum (the "**CDS MOU**") with the Exchanges. The CDS MOU outlines CDS' and the Exchanges' understanding of Canada's regulatory framework applicable to the rules and procedures and regulatory oversight of the Exchanges and CDS. The

CDS MOU confirms, with respect to the clearing of listed securities, that CDS relies on the Exchanges to review the conduct of listed issuers. As a result, there currently is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the U.S. However, if CDS were to proceed in the manner suggested by these publications, and apply such a policy to the Resulting Issuer, it would have a material adverse effect on the ability of Resulting Issuer Shares to make trades. In particular, the Resulting Issuer Shares would become highly illiquid as investors would have no ability to effect a trade of Resulting Issuer Shares through the facilities of a stock exchange.

Any restrictions imposed by the CSE or other applicable exchange on the business of the Resulting Issuer and/or the potential delisting of the Resulting Issuer Shares from the CSE or other applicable exchange would have a material adverse effect on the Resulting Issuer and on the ability of holders of Resulting Issuer Shares to make trades.

Negative Impact of Regulatory Scrutiny on Raising Capital

The Resulting Issuer's business activities will rely on newly established and/or developing laws and regulations in multiple jurisdictions. These laws and regulations are rapidly evolving and subject to change with minimal notice. Regulatory changes may adversely affect the Resulting Issuer's profitability or cause it to cease operations entirely. The cannabis industry may come under scrutiny or further scrutiny by the U.S. Food and Drug Administration, Securities and Exchange Commission, the DOJ, the Financial Industry Regulatory Authority or other applicable federal, state, or non-governmental regulatory authorities or self-regulatory organizations. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any proposals will become law. The regulatory uncertainty surrounding the Resulting Issuer's industry may adversely affect the business and operations of the Resulting Issuer, including without limitation, the costs to remain compliant with applicable laws and the impairment of its ability to raise additional capital, create a public trading market in the U.S. for securities of the Resulting Issuer or to find a suitable acquirer, which could reduce, delay or eliminate any return on investment in the Resulting Issuer.

Risk of Regulatory or Political Change

The success of the Resulting Issuer's business strategy depends on the legality of the cannabis industry. The political environment surrounding the cannabis industry in general can be volatile and the regulatory framework remains in flux. To our knowledge, there are to date a total of 30 states and the District of Columbia, Puerto Rico and Guam that have legalized cannabis in some form, including California, and additional states have pending legislation regarding the same; however, the risk remains that a shift in the regulatory or political realm could occur and have a drastic impact on the industry as a whole, adversely impacting the Resulting Issuer's business, results of operations, financial condition or prospects.

Delays in enactment of new state or federal regulations could restrict the Resulting Issuer's ability to reach strategic growth targets and lower return on investor capital. The strategic growth strategy of the Resulting Issuer is reliant upon certain federal and state regulations being enacted to facilitate the legalization of medical and adult-use cannabis. If such regulations are not enacted, or enacted but subsequently repealed or amended, or enacted with prolonged phase-in periods, the growth targets of the Resulting Issuer, and thus, the effect on the return of investor

capital, could be detrimental. We are unable to predict with certainty when and how the outcome of these complex regulatory and legislative proceedings will affect its business and growth.

Further, there is no guaranty that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. If the federal government begins to enforce federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing applicable state laws are repealed or curtailed, the Resulting Issuer's business, results of operations, financial condition and prospects would be materially adversely affected. It is also important to note that local and city ordinances may strictly limit and/or restrict distribution of cannabis in a manner that will make it extremely difficult or impossible to transact business that is necessary for the continued operation of the cannabis industry. Federal actions against individuals or entities engaged in the cannabis industry or a repeal of applicable cannabis related legislation could adversely affect the Resulting Issuer and its business, results of operations, financial condition and prospects.

The Resulting Issuer is aware that multiple states are considering special taxes or fees on businesses in the cannabis industry. It is a potential yet unknown risk at this time that other states are in the process of reviewing such additional fees and taxation. This could have a material adverse effect upon the Resulting Issuer's business, results of operations, financial condition or prospects.

The commercial, medical and adult-use cannabis industries are in their infancy and we anticipate such regulations will be subject to change as the jurisdictions in which the Resulting Issuer will carry on business mature. The Resulting Issuer expects to put in place a detailed compliance program that will oversee, maintain, and implement the compliance program and personnel.

Overall, the medical and adult-use cannabis industry is subject to significant regulatory change at both the state and federal level. The inability of the Resulting Issuer to respond to the changing regulatory landscape may cause it to not be successful in capturing significant market share and could otherwise harm its business, results of operations, financial condition or prospects.

General Regulatory Risks

The Resulting Issuer's business will be subject to a variety of laws, regulations and guidelines and licensing requirements in Canada and the United States. Achievement of the Resulting Issuer's business objectives will be contingent, in part, upon compliance with applicable regulatory requirements and obtaining all requisite regulatory approvals.

The Resulting Issuer will be required to obtain or renew further government permits and licenses for its contemplated operations. Obtaining, amending or renewing the necessary governmental permits and licenses can be a time-consuming process potentially involving numerous regulatory agencies, involving public hearings and costly undertakings on the Resulting Issuer's part. The duration and success of the Resulting Issuer's efforts to obtain, amend and renew permits and licenses will be contingent upon many variables not within its control, including the interpretation of applicable requirements implemented by the relevant permitting or licensing authority. The Resulting Issuer may not be able to obtain, amend or renew permits or licenses that are necessary to its operations. Any unexpected delays or costs associated with the permitting and licensing process could impede the ongoing or proposed operations of the

Resulting Issuer. To the extent permits or licenses are not obtained, amended or renewed, or are subsequently suspended or revoked, the Resulting Issuer may be curtailed or prohibited from proceeding with its ongoing operations or planned development and commercialization activities. Such curtailment or prohibition may result in a material adverse effect on the Resulting Issuer's business, financial condition, results of operations or prospects.

There is no assurance that the Resulting Issuer's licenses will be renewed by each applicable regulatory authority in the future in a timely manner. Any unexpected delays or costs associated with the licensing renewal process for any of the licenses held by the Resulting Issuer could impede the ongoing or planned operations of the Resulting Issuer and have a material adverse effect on the Resulting Issuer's business, financial condition, results of operations or prospects.

The Resulting Issuer may become involved in a number of government or agency proceedings, investigations and audits. The outcome of any regulatory or agency proceedings, investigations, audits, and other contingencies could harm the Resulting Issuer's reputation, require the Resulting Issuer to take, or refrain from taking, actions that could harm its operations or require the Resulting Issuer to pay substantial amounts of money, harming its financial condition. There can be no assurance that any pending or future regulatory or agency proceedings, investigations and audits will not result in substantial costs or a diversion of management's attention and resources or have a material adverse impact on the Resulting Issuer's business, financial condition, results of operations or prospects.

Differing Local Rules and Regulations May Limit Ability to Expand into New Markets

Expansion of the Resulting Issuer's business into new markets with different rules and regulations or distant from then-existing operations, may not succeed. Any such expansion may expose the Resulting Issuer to new operational, regulatory and/or legal risks. In addition, expanding into new localities may subject the Resulting Issuer to unfamiliar or uncertain local rules and regulations that may adversely affect the operations of the Resulting Issuer. For example, different localities may impose different rules on how cannabis may be cultivated, manufactured, processed, distributed and/or transported. Each of the political subdivisions of California, and Oregon currently has or may in the future obtain the right to subject participants in the cannabis industry operating within its jurisdiction to its own set of rules and regulations regarding the acquisition and maintenance of required licenses, and the conduct of business, including prohibiting such operations and business in full or in part, regardless of the rules and regulations of adjacent political subdivisions. Newly entered localities may also have competitive conditions, consumer preferences and spending patterns that are more difficult to predict or satisfy than the existing markets.

Re-classification of Cannabis in the United States

If cannabis and/or CBD is re-categorized as a Schedule II or lower controlled substance, the ability to conduct research on the medical benefits of cannabis would most likely be improved; however, rescheduling cannabis may materially alter enforcement policies across many federal agencies, primarily the U.S. Food and Drug Administration ("FDA"). FDA is responsible for ensuring public health and safety through regulation of food, drugs, supplements, and cosmetics, among other products, through its enforcement authority pursuant to the Federal Food Drug and Cosmetic Act ("FFDCA"). FDA's responsibilities include regulating the ingredients as well as the marketing and labeling of drugs sold in interstate commerce. Because cannabis is federally

illegal to produce and sell, and because it has no federally recognized medical uses, the FDA has historically deferred enforcement related to cannabis to the DEA; however, the FDA has enforced the FFDCA with regard to hemp-derived products, especially CBD, sold outside of state-regulated cannabis businesses. If cannabis were to be rescheduled to a federally controlled, yet legal, substance, FDA would likely play a more active regulatory role. Further, in the event that the pharmaceutical industry directly competes with state-regulated cannabis businesses for market share, as could potentially occur with rescheduling, the pharmaceutical industry may urge the DEA, FDA, and others to enforce the CSA and FFDCA against businesses that comply with state but not federal law. The potential for multi-agency enforcement post-rescheduling could threaten or have a materially adverse effect on the operations of existing state-legal cannabis businesses, including the Resulting Issuer.

Availability of U.S. Federal Patent and Trademark Protection

As long as cannabis remains illegal under U.S. federal law, the benefit of certain federal laws and protections which may be available to most businesses, such as federal trademark and patent protection regarding the intellectual property of a business, may not be available to the Resulting Issuer. As a result, the Resulting Issuer's intellectual property may never be adequately or sufficiently protected against the use or misappropriation by third-parties. In addition, since the regulatory framework of the cannabis industry is in a constant state of flux, the Resulting Issuer can provide no assurance that it will ever obtain any protection of its intellectual property, whether on a federal, state or local level.

Reliance on Third-Party Suppliers

The Resulting Issuer will be reliant on third-party suppliers to develop, manufacture and distribute its products. Due to the uncertain regulatory landscape for regulating cannabis in the United States, the Resulting Issuer's third party suppliers, manufacturers and contractors may elect, at any time, to decline or withdraw services necessary for the Resulting Issuer's operations. Loss of these suppliers, manufacturers and contractors may have a material adverse effect on the Resulting Issuer's business and operational results.

Enforceability of Contracts

Due to the nature of the Resulting Issuer's intended business and the fact that its contracts will involve cannabis and other activities that are not legal under U.S. federal law and in some jurisdictions, the Resulting Issuer may face difficulties in enforcing its contracts in federal and certain state courts. The inability to enforce any of the Resulting Issuer's contracts could have a material adverse effect on the Resulting Issuer's business, operating results, financial condition or prospects.

Potential Disclosure of Personal Information

Blacklist and its Affiliates currently own, manage, or provide services to or may in the future acquire interests, manage, or provide services to various U.S. state licensed cannabis operations. Acquiring even a minimal and/or indirect interest in a U.S. state-licensed cannabis business can trigger requirements to disclose investors' personal information. While these requirements vary by jurisdiction, some require interest holders to apply for regulatory approval and to provide tax returns, compensation agreements, fingerprints for background checks, criminal history records

and other documents and information. Some states require disclosures of directors, officers and holders of more than a certain percentage of equity of the applicant. While certain states include exceptions for investments in publicly traded entities, not all states do so, and some such exceptions are confined to companies traded on a U.S. securities exchange. If these regulations were to extend to the Resulting Issuer, investors would be required to comply with such regulations, or face the possibility that the relevant cannabis license could be revoked or cancelled by the state licensing authority.

18.4 Market and Other Risks

Volatility in the Market Price of the Resulting Issuer's Securities

The Resulting Issuer Shares are expected to be listed on the CSE under the symbol "IONC" following the completion of the Transaction. Securities of cannabis companies have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include macroeconomic developments in North America and globally, currency fluctuations and market perceptions of the attractiveness of particular industries. The price of the Resulting Issuer Shares is also likely to be significantly affected by short-term changes in cannabis, by the Resulting Issuer's financial condition or results of operations as reflected in its quarterly financial statements and by other operational and regulatory matters. As a result of any of these factors, the market price of the Resulting Issuer Shares at any given point in time may not accurately reflect their long-term value.

Payment of Dividends Unlikely

There is no assurance that the Resulting Issuer will pay dividends on its shares in the near future or ever. The Resulting Issuer will likely require all its funds to further the development of its business.

19. PROMOTERS

No person or company is or has been within the two years immediately preceding the date of this Listing Statement a promoter of the Resulting Issuer.

20. LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Zara

There are no material legal proceedings to which Zara is, or has been, a party or of which any of its property is, or has been, the subject matter. Additionally, to the reasonable knowledge of the management of Zara, there are no such proceedings contemplated.

During the three years immediately preceding the date of this listing statement, Zara has not been the subject of any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority, any other penalties or sanctions imposed by a court or regulatory body, or entered into any settlement agreements before a court relating to securities legislation or with a securities regulatory authority.

Blacklist

There are no material legal proceedings to which Blacklist is, or has been, a party or of which any of its property is, or has been, the subject matter. Additionally, to the reasonable knowledge of the management of Blacklist, there are no such proceedings contemplated.

Since its organization Blacklist has not been the subject of any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority, any other penalties or sanctions imposed by a court or regulatory body, or entered into any settlement agreements before a court relating to securities legislation or with a securities regulatory authority.

21. INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Zara

Except as disclosed herein, to the knowledge of Zara's management, no director or officer, insider or 10% shareholder of Zara, nor any of their respective Associates, affiliates or member of their group has or had any material interest, direct or indirect, in any transaction in the preceding three years before the date of this Listing Statement, or in any proposed transaction, that has materially affected or will materially affect Zara.

Kevin Ma, a director of Zara, beneficially owns Blacklist Debentures, which would convert into less than 1% of the issued and outstanding Resulting Issuer Shares upon completion of the Transaction. Skanderbeg Financial Advisory Inc., a company controlled by Mr. Ma, beneficially owns Blacklist Debentures, which would convert into less than 1% of the issued and outstanding Resulting Issuer Shares upon completion of the Transaction.

Blacklist

Except as disclosed herein, to the knowledge of Blacklist's management, no director or officer, insider or 10% shareholder of Blacklist, nor any of their respective Associates, affiliates or member of their group has or had any material interest, direct or indirect, in any transaction in the preceding three years before the date of this Listing Statement, or in any proposed transaction, that has materially affected or will materially affect Blacklist.

John Gorst and Carroll Benton have controlling interests in Ionic and have an interest in the purchase agreement between Ionic and Blacklist dated January 10, 2016.

22. AUDITORS, TRANSFER AGENTS AND REGISTRARS

22.1 Auditor

The auditors of Zara are Dale Matheson Carr-Hilton LaBonte LLP, Chartered Professional Accountants (the "**Auditors**"), located at 1500 – 1140 West Pender Street, Vancouver, British Columbia V6E 4G1.

22.2 Transfer Agent and Registrar

Zara's registrar and transfer agent, Odyssey Trust Company, located at 323 – 409 Granville Street, Vancouver, British Columbia V6C 1T2 will be the registrar and transfer agent of the Resulting Issuer.

23. MATERIAL CONTRACTS

Zara

Except for contracts made in the ordinary course of business, the following are the material contracts entered into by Zara within two years prior to the date hereof and which are currently in effect:

- Share Exchange Agreement dated December 24, 2018
- Amalgamation Agreement dated December 24, 2018

Blacklist

Except for contracts made in the ordinary course of business, the following are the material contracts entered into by Blacklist within two years prior to the date hereof and which are currently in effect:

- Share Exchange Agreement dated December 24, 2018
- Amalgamation Agreement dated December 24, 2018
- Purchase Agreement between Blacklist and Ionic, Inc. dated January 10, 2016

24. INTEREST OF EXPERTS

No person or corporation whose profession or business gives authority to a statement made by the person or corporation and who is named as having prepared or certified a part of this Listing Statement or as having prepared or certified a report or valuation described or included in this Listing Statement holds any beneficial interest, direct or indirect, in any securities or property of Zara or of an Associate or Affiliate of Zara and no such person is expected to be elected, appointed or employed as a director, senior officer or employee of Zara or of an Associate or Affiliate of Zara and no such person is a promoter of Zara or an Associate or Affiliate of Zara.

The auditors of Zara and Blacklist are independent of Zara and Blacklist, respectively, in accordance with the rules of professional conduct of the Institute of Chartered Professional Accountants of British Columbia

25. OTHER MATERIAL FACTS

Neither Zara nor Blacklist are aware of any other material facts relating to Zara, Blacklist or the Resulting Issuer or to the Transaction that are not disclosed under the preceding items and are

necessary in order for this Listing Statement to contain full, true and plain disclosure of all material facts relating to Zara, Blacklist and the Resulting Issuer, assuming completion of the Transaction, other than those set forth herein.

26. FINANCIAL STATEMENTS

Zara

The Zara Annual Financial Statements and the Zara Interim Financial Statements are available on SEDAR at www.sedar.com and are incorporated herein by reference:

- (A) Annual audited financial statements of Zara including the auditor's report from Dale Matheson Carr-Hilton Labonte LLP, Chartered Professional Accountants, for the financial years ended July 31, 2018 and 2017; and
- (B) Interim unaudited financial statements of Zara for the three month period ended October 31, 2018 (prepared by management).

Blacklist

A copy of the audited financial statements of Blacklist for the years ended December 31, 2017 and 2016 and the interim unaudited financial statements the nine month period ended September 30, 2018 are attached as Schedule "B" and "C", respectively, to this Listing Statement.

Pro-Forma Statements

The unaudited pro-forma statements of Zara giving effect to the Transaction as at October 31, 2018 are attached as Schedule "A" to this Listing Statement.

CERTIFICATE OF ZARA RESOURCES INC.

Pursuant to a resolution duly passed by the board of directors of Zara Resources Inc. (“**Zara**”), Zara, hereby applies for the listing of the above mentioned securities on the Canadian Securities Exchange. The foregoing contains full, true and plain disclosure of all material information relating to Zara. It contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to prevent a statement that is made from being false or misleading in light of the circumstances in which it was made.

Dated at Vancouver, British Columbia this 22nd day of March, 2019.

“Ken Cotiamco”

“Emmery Wang”

Ken Cotiamco
Interim Chief Executive Officer and
Director

Emmery Wang
Chief Financial Officer and Director

“Jonathan Yan”

“Kevin Ma”

Jonathan Yan
Director

Kevin Ma
Director

CERTIFICATE OF BLACKLIST HOLDINGS, INC.

The foregoing contains full, true and plain disclosure of all material information relating to Blacklist Holdings, Inc. It contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to prevent a statement that is made from being false or misleading in light of the circumstances in which it was made.

Dated at Vancouver, British Columbia this 22nd day of March, 2019.

“John Gorst”

John Gorst
Chief Executive Officer

“Andrew Schell”

Andrew Schell
Director

“Austin Gorst”

Austin Gorst
Director

“Scott Manson”

Scott Manson
Chief Financial Officer

“Bryen Salas”

Bryen Salas
Director

**SCHEDULE A
PRO-FORMA FINANCIAL STATEMENTS**

[See Attached]

BLACKLIST HOLDINGS INC.

**PRO-FORMA CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT OCTOBER 31, 2018**

(UNAUDITED – PREPARED BY MANAGEMENT)

(Expressed in US Dollars)

BLACKLIST HOLDINGS INC.
PRO-FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT OCTOBER 31, 2018 (UNAUDITED)

(expressed in US Dollars)

	ZARA RESOURCES INC. OCTOBER 31, 2018		BLACKLIST HOLDINGS INC. SEPTEMBER 30, 2018		PRO FORMA ADJUSTMENTS	NOTE	PRO FORMA CONSOLIDATED		
ASSETS									
Current Assets									
Cash and cash equivalents	\$	-	\$	16,465	\$	7,243,766	3	\$	7,260,231
Receivables		2,510		363,106		-			365,616
Prepays		-		232,102		-			232,102
Non-Current Assets		2,510		611,673		7,243,766			7,857,949
Property and equipment		-		412,550		-			412,550
Total Assets	\$	2,510	\$	1,024,223	\$	7,243,766		\$	8,270,499
LIABILITIES AND SHAREHOLDERS' EQUITY									
Current Liabilities									
Accounts payable and accrued liabilities	\$	33,018	\$	926,497	\$	(267,945)	3	\$	691,570
Loans payable		-		758,850		(249,812)	3		509,038
Current portion of vehicle loans		-		24,474		-			24,474
Convertible debentures		-		553,995		(553,995)	3		-
Obligation to issue convertible debentures		-		707,880		(707,808)	3		-
Due to related party		58,537		-		-	3		58,537
		91,555		2,971,696		(1,779,632)			1,283,619
Non-Current Liabilities									
Vehicle loans		-		95,216		-			95,216
Preferred C shares liabilities		76,090		-		(76,090)	3		-
Total Liabilities	\$	167,645	\$	3,066,912	\$	(1,855,722)		\$	1,378,835
Shareholders' Equity									
Common shares		1,240,862		146,058		12,023,186	3		13,410,106
Share issuance costs		-		-		(2,509,748)	3		(2,509,748)
Reserves		750,704		-		(556,245)	3		194,459
Deficit		(2,156,701)		(2,188,747)		142,295	3		(4,203,153)
	\$	(165,135)	\$	(2,042,689)	\$	9,099,488		\$	6,891,664
Total Liabilities and Shareholders' Equity	\$	2,510	\$	1,024,223	\$	7,243,766		\$	8,270,499

The accompanying notes are an integral part of these pro-forma condensed consolidated financial statements

BLACKLIST HOLDINGS INC.
NOTES TO PRO-FORMA CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2018 (UNAUDITED)

(expressed in US dollars, unless otherwise noted)

1. Proposed Transaction with Zara Resource Inc.

Blacklist Holdings Inc. (“Blacklist”, or the “Corporation”) and Skanderbeg Capital Advisory Inc. (“Skanderbeg”) entered into a letter of intent dated June 18, 2018 (the “LOI”), which was later assigned by Skanderbeg to Zara Resource Inc. (“Zara”) have entered into an assignment and novation agreement dated on September 28, 2018. Pursuant to the terms and conditions of the LOI, Zara will acquire all of the issued and outstanding common shares of Blacklist in consideration for Zara common shares on a one-for-one basis (the “Transaction”). As a result of the acquisition of Blacklist, Zara will become the sole registered owner of all the outstanding Blacklist shares.

Completion of the Transaction is subject to a number of conditions, including the completion of a private placement financing, approval by the shareholders of Zara and Blacklist, and receipt of all required regulatory approvals, including the approval of the Canadian Securities Exchange (“CSE”). The Transaction cannot close until these conditions are satisfied and the required approvals are obtained. There can be no assurance that the Transaction will be completed.

2. Basis of Presentation

The unaudited pro-forma condensed consolidated statement of financial position (“Pro-Forma Statement of Financial Position”) of Blacklist gives effect to the Transaction as described above. In substance, the Transaction involves Blacklist shareholders obtaining control of Zara. The Pro-Forma Statement of Financial Position gives effect to the acquisition of Blacklist outstanding common shares by Zara as a reverse takeover that does not constitute a business for accounting purposes. Blacklist is deemed to be the acquiring company and its assets, liabilities, equity and historical operating results are included at their historical carrying values. The net assets of Zara will be recorded at fair value as at the Transaction date with any excess recorded as a public company listing expense. All of Zara’s deficit and other equity balances prior to the Transaction are eliminated.

The accompanying Pro-Forma Statement of Financial Position has been compiled for illustrative purposes by management to give effect to the Transaction as if it had been completed on October 31, 2018.

The Pro-Forma Statement of Financial Position is not intended to reflect the financial position that will exist following the Transaction. Actual amounts recorded should the Transaction take place will likely differ from those recorded in the Pro-Forma Statement of Financial Position.

The Pro-Forma Statement of Financial Position is presented in US dollars (“USD”) and has been compiled by combining:

- Zara’s unaudited interim financial statements as at the three-months period ended October 31, 2018;
- Blacklist’ unaudited condensed interim financial statements as at and for the nine-month period ended September 30, 2018;
- The additional information set out in Note 3 of these Pro-Forma Statement of Financial Position.

The functional currency of Zara is Canadian dollars (CAD), while the functional currency for Blacklist in US dollars. For comparative purposes, the financial statements of Zara have been translated into US dollars as at October 31, 2018 for the purpose of presenting a Pro-Forma Statement of Financial Position.

This Pro-Forma Statement of Financial Position should be read in conjunction with the audited annual and financial statements of Zara as at and for the year ended July 31, 2018 and the unaudited interim financial statements as at and for the three months ended October 31, 2018 and Blacklist’s audited financial statements as at and for the years ended December 31, 2017 and 2016 and unaudited interim financial statements as at and for the nine months ended September 30, 2018.

BLACKLIST HOLDINGS INC.
NOTES TO PRO-FORMA CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2018 (UNAUDITED)

(expressed in US dollars, unless otherwise noted)

The accounting policies used in the preparation of the Pro-Forma Statement of Financial Position are those set out in the audited financial statements of Blacklist as at and for the years ended December 31, 2017 and 2016. In preparing the Pro-Forma Statement of Financial Position, a review was undertaken to identify differences between Zara's accounting policies and those of Blacklist that could have a material impact of the pro-forma financial statements. No material differences were noted. On closing of the Transaction, Zara will adopt the accounting policies set out in Blacklist' financial statements.

The pro-forma adjustments and allocations of the purchase price of Zara by Blacklist as a reverse takeover are based in part on estimates of the fair value of the assets acquired and liabilities assumed. The final allocation will be completed after asset and liability valuations are finalized. The final valuation will be based on the actual assets and liabilities of Zara that exists as of the date of completion of the acquisition.

3. Pro-Forma Adjustments and Assumptions

The Pro-Forma Statement of Financial Position incorporates the following pro-forma assumptions:

- (a) On October 2, 2018, the Corporation issued 4,800,000 convertible debenture units (the "\$0.25 Debenture Units") for gross proceeds of \$912,912 (CAD \$1,200,000). Each \$0.25 Debenture Unit is convertible into one common share of the Corporation (the "Blacklist Common Shares") at a conversion price of \$0.25 per Blacklist Common Share. The 4,800,000 Debenture Units are expected to be converted into 4,800,000 Blacklist Common Shares upon the completion of the transaction. As at September 30, 2018, \$702,614 (CAD \$930,000) of the CAD \$1,200,000 proceeds had been received.
- (b) On October 10, 2018, the Corporation issued 3,125,000 convertible debenture units (the "\$0.40 Debenture Units") for gross proceeds of \$951,125 (CAD \$1,250,000). Each \$0.40 Debenture Unit is convertible into one common share of the Corporation (the "Blacklist Common Shares") at a conversion price of \$0.40 per Blacklist Common Share. The 3,125,000 \$0.40 Debenture Units are expected to be converted into 3,125,000 Blacklist Common Shares upon the completion of the transaction. In connection with the \$0.40 Debenture Units, the Corporation will issue 436,000 common shares as financing fees.
- (c) On November 26 and December 5, 2018, the Corporation issued 3,438,816 convertible debenture units (the "\$0.50 Debenture Units") for gross proceeds of \$1,308,298 (CAD \$1,719,408) and issued 265,400 \$0.50 Debenture Units for the settlement of debt of \$100,000. Each \$0.50 Debenture Unit is convertible into one common share of the Corporation (the "Blacklist Common Shares") at a conversion price of \$0.50 per Blacklist Common Share. The 3,438,816 \$0.50 Debenture Units are expected to be converted into 3,438,816 Blacklist Common Shares upon the completion of the transaction. In connection with the \$0.50 Debenture Units, the Corporation pay \$66,198 (CAD \$87,000) as financing fees and 174,000 financing fee warrants. Each warrant is exercisable for \$0.50 per share for a period of 18 months from the date of closing of the Transaction. The Corporation intends to issue 174,000 Blacklist Common Shares to settle the cash financing fee of \$66,198 (CAD \$87,000). The total fair value of \$24,728 is recorded in equity. The fair value of warrants have been estimated using the Black-Scholes Option Pricing Model assuming a risk free interest rate of 2.19%, an expected life of 1.5 years, and an expected volatility of 77.08%.
- (d) Subsequent to September 30, 2018, Blacklist converted the following amounts of debts into Common Shares of Blacklist: \$760,900 (CAD \$1,000,000) marketing expenses into 2,000,000 Blacklist Common Shares; \$234,927 (CAD \$308,749) accounts payable and accrued liabilities into 487,497 Blacklist Common Shares; \$100,185 loans into 260,000 Blacklist Common Shares; and \$409,294 (CAD \$537,909) consulting fees into 1,075,818 Blacklist Common Shares.

BLACKLIST HOLDINGS INC.
NOTES TO PRO-FORMA CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2018 (UNAUDITED)

(expressed in US dollars, unless otherwise noted)

- (e) Subsequent to September 30, 2018, Blacklist issued 440,000 common shares to certain employees in lieu of share purchase options. The total fair value of these share-based payment is \$167,398 (CAD \$220,000).
- (f) Upon the completion of the Transaction, the Corporation expects to convert all 32,363,815 outstanding convertible debt units to common shares on a one-to-one basis.
- (g) On November 26 and December 5, 2018, the Blacklist Finco Inc. ("Blacklist Finco") a wholly-owned subsidiary of Blacklist, issued 14,280,146 subscription receipts shares for gross proceeds of \$5,432,882 (CAD \$7,140,073). The subscriptions receipts will be held in escrow until the closing of the Transaction; whereby, the subscription receipts will be exchanged for post-consolidated shares of Zara upon the closing of the Transaction. For the purposes of the Pro-Forma Financial Statements, all subscription receipts are assumed to have been converted into common shares of Blacklist Finco and exchanged for post-consolidated shares of Zara. In connection with the \$0.50 subscription receipts, the Blacklist Finco will pay \$210,229 (CAD \$276,290) and issue 552,580 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. The Corporation intends to issue 273,700 Blacklist Common Shares and pay \$106,100 (\$CAD 139,440) in cash to settle the cash financing fee of \$210,229. The total fair value of \$78,529 is recorded in equity. The fair value of warrants have been estimated using the Black-Scholes Option Pricing Model assuming a risk free interest rate of 2.19%, an expected life of 1.5 years, and an expected volatility of 77.08%.
- (h) Finders' fees of 5,250,000 Zara common shares will be issued to certain arms' length third parties at closing of the Transaction with an assigned value of \$1,997,363. These costs have been allocated to share issuance costs.
- (i) On February 28, 2018, Blacklist entered into a Bridge Loan agreement (the "Bridge Loan") with an unrelated third party, whereby Blacklist will receive a loan of CAD \$2,500,000. The Bridge Loan matures one year from the date closing date and carries an annual interest rate of 17%, compounded monthly, payable in arrears. The Bridge Loan has a minimum interest payment \$115,385 (CAD \$150,000), should the principal be repaid prior to the maturity date. In connection with the loan, a financing fee of \$70,770 (CAD \$92,000) will be paid and 2,000,000 share purchase warrants will be issued. Each warrant is exercisable at CAD \$0.55 per share for a period of one year from the date of issuance.

The total fair value of the warrants of \$92,592 (CAD \$119,861) has been recorded in equity as reserves. The fair value of warrants has been estimated using the Black-Scholes Option Pricing Model assuming a risk free interest rate of 2.19%, an expected life of 1 year, and an expected volatility of 47.70%.

Management expects the Bridge Loan to be repaid upon the completion of the Transaction from the Subscription Receipts proceeds. The minimum interest payment and financing fee has been included as a Pro-Forma adjustment.
- (j) On January 30, 2018, Blacklist entered into a Bridge Loan agreement (the "Bridge Loan") with an unrelated third party, whereby Blacklist will receive a loan of CAD \$3,250,000. The Bridge Loan matures on May 15, 2019 with no interest. In connection with the loan, a financing fee of \$200,850 (CAD \$260,000) will be paid.

Management expects the Bridge Loan to be repaid upon the completion of the Transaction from the Subscription Receipts proceeds. The minimum interest payment and financing fee has been included as a Pro-Forma adjustment.
- (k) \$33,018 of accounts payables in Zara are expected to be written off prior to the closing of the Transaction.

BLACKLIST HOLDINGS INC.
NOTES TO PRO-FORMA CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2018 (UNAUDITED)

(expressed in US dollars, unless otherwise noted)

- (l) 83,333 Preferred C Shares of Zara were converted into 1,428,566 pre-consolidated Zara common shares on January 21, 2019.
- (m) The Pro-Forma Statement of Financial Position has been adjusted for the elimination of Zara's share capital and accumulated deficit within shareholders' equity.

As a result of the Transaction, a listing expense of \$182,334 has been recorded. This reflects the difference between the estimated fair value of Zara shares to Blacklist shareholders less the fair value of net assets of Zara acquired.

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

Purchase Price		
331,995 common shares of Zara Resource Inc valued at \$0.38 (CAD \$0.50)	\$	126,307
Total Purchase Price	\$	126,307
Allocation of Purchase Price		
Receivables	\$	2,510
Accounts and accrued liabilities		(58,537)
Charge related to public company listing		182,334
	\$	126,307

The pro-forma adjustments and allocations of the estimated consideration transferred are based in part on estimates of the fair value of assets to be acquired and liabilities to be assumed. The final determination of the consideration transferred and the related allocation of the fair value of the Zara net assets to be acquired pursuant to the Transaction will ultimately be determined after the closing of the transactions. It is likely that the final determination of the consideration transferred and the related allocation of the fair value of the assets acquired and liabilities assumed will vary from the amounts present in the Pro-Forma Statement of Financial Position and that those differences may be material.

4. Pro-Forma Tax Rate

The pro-forma effective tax rate that will be applicable to the operations of Blacklist is 26%.

Federal tax rate	15%
Provincial tax rate	11%
Pro-forma effective tax rates	26%

BLACKLIST HOLDINGS INC.
NOTES TO PRO-FORMA CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2018 (UNAUDITED)

(expressed in US dollars, unless otherwise noted)

5. Pro-Forma Share Capital

As a result of the Transaction the share capital as at October 31, 2018 in the pro-forma condensed consolidated financial statements is comprised of the following:

Authorized

Unlimited common shares, without par value

	Note	Number of Shares	Share Capital	Share Issuance Cost	Reserves
Opening balance of Zara		10,505,486	\$ 1,240,862	\$ -	750,704
Conversion of 83,333 Preferred C Shares of Zara to 1,428,566 Common shares	3(l)	1,428,566	543,498	-	-
Consolidation of Zara common shares at a conversion ratio of 34.9465:1		(11,602,057)	-	-	-
Common shares issued per reverse takeover of Zara	3(m)	331,995	126,307	-	-
Elimination of pre-acquisition share capital of Zara	3(m)	(331,995)	(1,784,360)	-	(750,704)
Common shares of Blacklist		8,009,999	146,058	-	-
Reserves of Blacklist		-	-	-	1,261,875
Blacklist Common stock split at 6.375:1 ratio		43,053,745	-	-	-
Shares issued in lieu of stock options	3(e)	440,000	167,398	-	-
Conversion of CAD \$0.035 Convertible Debenture Units to Common stock at CAD \$0.035	3(f)	20,999,999	559,262	-	(559,262)
Conversion of CAD \$0.25 Convertible Debenture Units to Common stock at CAD \$0.25	3(f)	4,800,000	913,080	-	(702,613)
Conversion of CAD \$0.40 Convertible Debenture Units to Common stock at CAD \$0.40	3(f)	3,125,000	951,125	-	-
Conversion of CAD \$0.50 Convertible Debenture Units to Common stock at CAD \$0.50	3(f)	3,438,816	1,308,297	-	-
CAD \$0.50 Private placement subscription receipts exchanged for common shares	3(g)	14,280,146	5,432,882	-	-
Conversion of loan to CAD \$0.50 common shares	3(d)	260,000	100,185	-	-
Conversion of accounts payable to CAD \$0.50 common shares	3(d)	2,487,497	995,827	-	-
Shares issued for the settlement of consulting fees	3(d)	1,075,818	409,294	-	-
Finders' fees	3(h)	5,250,000	1,997,363	(1,997,363)	-
Financing fee shares for CAD \$0.40 debentures	3(b)	436,000	132,701	(132,701)	-
Financing fee shares for CAD \$0.50 debentures	3(c)	174,000	66,198	(66,198)	-
Financing fee shares for CAD \$0.50 subscription receipts	3(g)	273,700	104,129	(104,129)	-
Cash financing fees for CAD \$0.50 subscription receipts	3(g)	-	-	(106,100)	-
Financing fee warrants	3(c),3(g)	-	-	(103,257)	103,257
Bridge Loan Warrants	3(i)	-	-	-	91,202
Pro-Forma Share Capital		108,436,715	\$ 13,410,106	\$ (2,509,748)	\$ 194,459

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**SCHEDULE B
BLACKLIST ANNUAL FINANCIAL STATEMENTS**

[See Attached]

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

Expressed in United States Dollars



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Directors and Shareholders of Blacklist Holdings Inc.

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Emphasis of Matter

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

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada,
December 21, 2018

An independent firm associated with
Moore Stephens International Limited
MOORE STEPHENS

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

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

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

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

 "John Gorst"
 Director

 "Austin Gorst"
 Director

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

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

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

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

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

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

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

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

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

1. NATURE AND CONTINUANCE OF OPERATIONS

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

Statement of compliance

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

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

Basis of preparation

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

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

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

Significant estimates and assumptions

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

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

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

Estimated useful lives and depreciation of property, plant and equipment

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

Impairment

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

Allowance for doubtful accounts, and the recoverability of receivables

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

Contingencies

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

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

Income taxes

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

Significant judgments

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

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

Loss per share

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

Financial instruments

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

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

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

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

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

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

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

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

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

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

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

Impairment of assets

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

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

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

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

Income taxes

Current income tax:

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

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

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

Deferred income tax:

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

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

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

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

Leases

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

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

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

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

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

Property, plant and equipment

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

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

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

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

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

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

Inventory

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

Revenue

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

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

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

Cost of goods sold

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

Standards and interpretations not year adopted

New standard IFRS 9 "Financial Instruments"

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

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

New standard IFRS 15 "Revenue from Contracts with Customers"

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

New standard IFRS 16 "Leases"

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

3. INVENTORY

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

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

4. PROPERTY AND EQUIPMENT

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

5. ACCOUNTS PAYABLES AND ACCRUED LIABILITIES

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

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

6. LOANS PAYABLE

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

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

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

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

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

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

A continuity of the loans payable is as follows:

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

7. RELATED PARTY TRANSACTIONS

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

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

Accounts payable and accrued liabilities

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

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

Loans payable

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

Accounts receivables

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

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

7. RELATED PARTY TRANSACTIONS (continued)

Transactions with related parties:

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

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

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

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

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

Equity

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

8. COMMITMENTS

Vehicle loans

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

A continuity of the vehicle loans is as follows:

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

8. COMMITMENTS (continued)

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

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

Operating lease

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

<u>Year</u>	<u>Lease payments</u>
2018	\$ 60,000
2019	40,000
Total	\$ 100,000

9. SHARE CAPITAL

Authorized share capital

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

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

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

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

Common shares

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

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

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

10. INCOME TAXES

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

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

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

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

11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

Credit risk

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

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

Foreign exchange risk

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

Interest rate risk

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

Fair value

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

12. CAPITAL MANAGEMENT

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

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

13. SUBSEQUENT EVENTS

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

14. SUBSEQUENT EVENTS (continued)

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

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

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

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

14. SUBSEQUENT EVENTS (continued)

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

SCHEDULE C
BLACKLIST INTERIM FINANCIAL STATEMENTS

[See Attached]

Blacklist Holdings Inc.
Condensed Interim Financial Statements
Three and nine months ended September 30, 2018

Expressed in United States Dollars

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

	Notes	September 30, 2018	December 31, 2017
ASSETS			
(Unaudited)			
Current assets			
Cash		\$ 16,465	\$ 13,618
Receivables	7	363,106	600,810
Prepaid	4	232,102	-
		611,673	614,428
Non-current assets			
Property and equipment	3	412,550	404,004
TOTAL ASSETS		\$ 1,024,223	\$ 1,018,432
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	5	\$ 926,497	\$ 561,122
Loans payable	6	758,850	776,258
Current portion of vehicle loans	9	24,474	27,030
Convertible debentures	8	553,995	-
Obligation to issue convertible debentures	11	707,880	-
		2,971,696	1,364,410
Non-current liabilities			
Vehicle loans	9	95,216	63,223
TOTAL LIABILITIES		3,066,912	1,427,633
SHAREHOLDERS' EQUITY			
Share capital	10	146,058	130,976
Deficit		(2,188,747)	(540,177)
TOTAL SHAREHOLDERS' EQUITY (DEFICIT)		(2,042,689)	(409,201)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 1,024,223	\$ 1,018,432

Commitments (Note 9)

Subsequent events (Notes 1 and 11)

Approved and authorized for issue by the Board of Directors on February 26, 2019.

 "John Gorst"

Director

 "Austin Gorst"

Director

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

Blacklist Holdings Inc.
Condensed Interim Statements of Comprehensive Loss
Expressed in US dollars

		Three months ended September 30,		Nine months ended September 30,	
	Notes	2018	2017	2018	2017
Revenue					
Product sales	7	\$ 67,431	\$ 375,685	\$ 1,265,151	\$ 1,012,714
Equipment rental income	7	-	87,996	175,991	257,418
Royalty income	7	-	129,588	324,085	364,905
		67,431	593,269	1,765,227	1,635,037
Cost of goods sold					
		529,639	203,009	1,410,316	638,317
		(462,208)	390,260	354,911	996,720
Operating expenses					
Business development		243,199	24,307	315,688	144,462
Depreciation	3	22,814	7,059	69,693	21,177
Interest and finance charges	6, 9	37,826	8,379	82,854	35,857
Office and administration		114,532	66,406	277,440	146,891
Professional fees		53,553	5,835	78,557	27,469
Rent expense	7	5,008	22,831	37,508	86,165
Research and development		1,668	30,910	7,157	33,864
Salaries and wages		277,514	163,374	614,786	329,760
Share based payments	7, 10	2,053	-	15,075	-
Travel		54,310	22,628	99,281	55,098
Utilities		9,140	11,111	26,603	25,931
		(771,617)	(362,840)	(1,624,642)	(906,674)
Other items					
Gain on disposal of vehicle	3	5,612	-	5,612	-
Impairment of related party receivables	7	(258,286)	(81,662)	(384,451)	(133,087)
Loss and Comprehensive loss		\$(1,486,499)	\$ (54,242)	\$ (1,648,570)	\$ (43,041)
Loss per share – basic and diluted		\$ (0.19)	\$ (0.01)	\$ (0.21)	\$ (0.01)
Weighted average number of shares outstanding – basic and diluted		8,009,816	7,497,000	8,008,658	7,497,000

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

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

	Share capital			Total
	Number of shares	Amount	Deficit	
Balance at December 31, 2016	7,497,000	\$ 124,920	\$ (211,863)	\$ (86,943)
Net loss for the period	-	-	(43,041)	(43,041)
Balance at September 30, 2017	7,497,000	\$ 124,920	\$ (254,904)	\$ (129,984)
Balance at December 31, 2017	7,644,000	\$ 130,976	\$ (540,177)	\$ (409,201)
Shares issued for services rendered	365,999	15,082	-	15,082
Net loss for the period	-	-	(1,648,570)	(1,648,570)
Balance at September 30, 2018	8,009,999	\$ 146,058	\$ (2,188,747)	\$ (2,042,689)

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

Blacklist Holdings Inc.
Condensed Interim Statements of Cash Flows
Expressed in US dollars

	Nine months ended September 30,	
	2018	2017
Operating activities		
Loss for the period	\$ (1,648,570)	\$ (43,043)
Adjustments for:		
Depreciation	69,693	21,177
Interest expense	66,188	35,857
Gain on disposal of vehicle	(5,612)	-
Impairment of related party receivable	384,451	133,087
Share-based payments	15,075	-
Changes in non-cash working capital items:		
Receivable	(146,740)	(316,779)
Accounts payables and accrued liabilities	298,407	348,260
Inventory	-	35,052
Prepaid	(232,102)	-
Net cash flows provided from (used by) operating activities	(1,199,210)	213,613
Investing activities		
Purchase of property, plant and equipment	(7,636)	(326,473)
Net cash flows used in investing activities	(7,636)	(326,473)
Financing activities		
Proceeds from loans payable	101,319	207,792
Repayment of loans payable	(133,229)	(112,416)
Repayment of vehicle loans	(20,272)	(14,575)
Convertible debentures	553,995	-
Obligation to issue convertible debentures	707,880	-
Net cash flows used in financing activities	1,209,693	80,801
Increase (decrease) in cash	2,847	(32,059)
Cash, beginning	13,618	26,542
Cash (bank indebtedness), end	\$ 16,465	\$ (5,517)
Supplemental cash flow information:		
Interest paid in cash during the period	\$ 36,174	\$ -
Reclassification of accounts payable to loans payable	\$ 26,514	\$ 50,943
Proceeds for loans payable through property, plant and equipment	\$ -	\$ 9,297

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

1. NATURE AND CONTINUANCE OF OPERATIONS

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

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

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

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

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

2. STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION

Statement of compliance

These condensed interim 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”) applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34 Interim Financial Reporting.

These condensed interim financial statements follow the same accounting policies and methods of application as the Company’s most recent annual financial statements, and should be read in conjunction with the Company’s annual financial statements for the year ended December 31, 2017, which were prepared in accordance with IFRS as issued by IASB. There have been no significant changes in judgement or estimates from those disclosed in the financial statements for the year ended December 31, 2017.

These condensed interim financial statements were authorized for issue by the Board of Directors on February 26, 2019.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION (continued)

Standards and interpretations not year adopted

New standard IFRS 9 "Financial Instruments"

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

New standard IFRS 15 "Revenue from Contracts with Customers"

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

New standard IFRS 16 "Leases"

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

3. PROPERTY AND EQUIPMENT

	Motor Vehicles	Computer equipment	Furniture and fixtures	Leasehold improvements	Lab equipment	Total
Cost:						
At December 31, 2016	\$ 78,537	\$ 21,111	\$ 21,559	\$ 96,002	\$ 243,854	\$ 461,063
Additions	58,444	5,445	5,202	13,234	29,948	112,273
At December 31, 2017	136,981	26,556	26,761	109,236	273,802	573,336
Additions	64,991	5,084	837	17,974	8,649	97,535
Disposal	(19,296)	-	-	-	-	(19,296)
At September 30, 2018	\$ 182,676	\$ 31,640	\$ 27,598	\$ 127,210	\$ 282,451	\$ 651,575
Amortization:						
At December 31, 2016	\$ 11,350	\$ 2,598	\$ 2,081	\$ 11,717	\$ 31,771	\$ 59,517
Charge for the period	22,688	8,027	3,784	36,394	38,922	109,815
At December 31, 2017	34,038	10,625	5,865	48,111	70,693	169,332
Charge for the period	24,768	8,639	2,867	8,804	29,857	72,930
Eliminated on disposal	(3,237)	-	-	-	-	(3,237)
At September 30, 2018	\$ 55,569	\$ 19,264	\$ 8,732	\$ 56,915	\$ 100,545	\$ 239,025
Net book value:						
At December 31, 2017	\$ 102,943	\$ 15,931	\$ 20,896	\$ 61,125	\$ 203,109	\$ 404,004
At September 30, 2018	\$ 127,107	\$ 14,376	\$ 18,866	\$ 70,640	\$ 181,561	\$ 412,550

4. PREPAID EXPENSES

	September 30, 2018	December 31, 2017
Prepaid expenses	\$ 32,102	\$ 100
Deposit	200,000	-
	\$ 232,102	\$ 100

On August 10, 2018, the Company executed a Letter of Intent (the "Zoots LOI") with a third party, pursuant to which the Company will acquire all of the issued and outstanding shares of the third party for cash and share consideration. The consideration will be paid as follows:

- a) \$200,000 upon the signing of the Zoots LOI (paid);
- b) \$200,000 upon 45 days after signing the Zoots LOI;
- c) \$200,000 upon 75 days after signing the Zoots LOI; and
- d) Common shares in the capital of the Company at a fair value of \$10,400,000.

In addition, the Company agreed to pay performance shares at revenue generating milestones.

5. ACCOUNTS PAYABLES AND ACCRUED LIABILITIES

	September 30, 2018	December 31, 2017
Trade payables	\$ 856,542	\$ 498,758
Amounts due to related parties (Note 7)	66,500	54,500
Amounts due for vehicle loans (Note 8)	3,455	7,864
	\$ 926,497	\$ 561,122

6. LOANS PAYABLE

On December 31, 2016, the Company entered into a promissory note agreement with a director of the Company for the amount of \$357,483 for the balance outstanding from expenses paid by the director and repayments issued by the Company during the year ended December 31, 2016. The note is interest bearing at 10.5% per annum, unsecured and due on December 31, 2017. On December 31, 2017, the Company entered into a revised promissory note agreement with the director for the amount of \$353,219 for the balance outstanding from expenses paid by the director and repayments issued by the Company during the year ended December 31, 2017. The revised note is interest bearing at 10.5% per annum, unsecured and due on December 31, 2018. As at September 30, 2018, the balance outstanding including accrued interest is \$392,508 (December 31, 2017: \$409,738).

During the year ended December 31, 2015, the Company issued a promissory note to a company related to a director of the Company for the amount of \$9,274. The promissory note is interest bearing at 10.5% per annum, unsecured and due on demand. As at September 30, 2018, the balance outstanding including accrued interest is \$11,324 (December 31, 2017: \$11,670).

On December 31 2016, the Company entered into a promissory note agreement with a director of the Company for the amount of \$216,002 for the balance outstanding from expenses paid by the director and repayments issued by the Company during the year ended December 31, 2016. The note is interest bearing at 10.5% per annum, unsecured and due on December 31, 2017. On December 31, 2017, the Company entered into a revised promissory note agreement with the director for the amount of \$298,712 for the balance outstanding from expenses paid by the director and repayments issued by the Company during the year ended December 31, 2017. The revised note is interest bearing at 10.5% per annum, unsecured and due on December 31, 2018. As at September 30, 2018, the balance outstanding including accrued interest is \$337,720 (December 31, 2017: \$317,108).

6. LOANS PAYABLE (continued)

During the year ended December 31, 2015, the Company issued a promissory note to a former director of the Company for the amount of \$16,337. The promissory note is non-interest bearing, unsecured and due on demand. As at September 30, 2018, the balance outstanding including accrued interest is \$9,809 (December 31, 2017: \$9,809).

On October 31, 2017, the Company entered into a business loan and security agreement for the amount of \$30,000. The note is interest bearing at 11.48% per annum, secured by all assets of the Company and due on October 31, 2018. As at September 30, 2018, the balance outstanding including accrued interest is \$7,486 (December 31, 2017: \$27,933).

A continuity of the loans payable is as follows:

	September 30, 2018	December 31, 2017
Balance, at the beginning of the year	\$ 776,258	\$ 637,474
Loans issued during the year	123,958	212,632
Interest expense	60,347	80,005
Repayments of loans payable	(201,713)	(153,853)
	\$ 758,850	\$ 776,258

7. RELATED PARTY TRANSACTIONS

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers. The remuneration of directors and key management personnel during the six month period ended September 30, 2018 and for the year ended December 31, 2017 was as follows:

	September 30, 2018	December 31, 2017
Salaries and wages – CEO of the Company	\$ 36,000	\$ 25,831
Salaries and wages – directors of the Company	63,547	72,038
Salaries and wages – former director of the Company	-	28,855
Share based payments	13,465	3,028
	\$ 113,012	\$ 129,752

Accounts payable and accrued liabilities

As at September 30, 2018, the following is included in accounts payable in related to transactions with related parties, which are non-interest bearing, unsecured and due on demand:

- i. \$21,500 (December 31, 2017: \$21,500) owing to a director of the company for services rendered.
- ii. \$45,000 (December 31, 2017: \$33,000) owing to a company related to a director of the Company for rent payments.

Loans payable

As at September 30, 2018, included in loans payable is \$741,552 (December 31, 2017 - \$748,325) owing to related parties (Note 6). In relation to the loans payable, during the period ended September 30, 2018, the Company recorded interest expense of \$58,232 from related parties.

7. RELATED PARTY TRANSACTIONS (continued)

Accounts receivables

As at September 30, 2018, the following is included in accounts receivable in related to transactions with related parties:

- i. \$316,926 (December 31, 2017: \$600,810) owing to a company related to a company jointly owned by the CEO and former CFO for all of the revenue incurred.

Transactions with related parties:

During the period ended September 30, 2018, the Company had product sales to a company jointly owned by the CEO and former CFO of \$1,265,151 (September 30, 2017: \$1,012,714).

On October 1, 2016, the Company entered into a commercial lease agreement with a company owned by a director of the Company for its head office. Under the agreement the Company is required to make lease payments for a term of 3 years (Note 8). During the period ended September 30, 2018, the Company recorded rent expense of \$49,500 (September 30, 2017: \$38,250) to the related party.

During the year ended December 31, 2015, the Company entered into an Asset Lease Agreement with a company jointly owned by the CEO and former CFO. Under the agreement, the Company leased its equipment for monthly fees of \$10,000. Shortly after the execution of the agreement, both parties mutually filed amendments for fees payable when new equipment was added to the original leased equipment. During the period ended September 30, 2018, the Company had recognized equipment rental income of \$175,991 (September 30, 2017: \$257,418).

On January 1, 2016, the Company entered into Licensing Agreement with a company jointly owned by the CEO and former CFO (the "Licensee"). Under the agreement, the Company grants the Licensee a non-exclusive, non-transferrable, non-assignable royalty bearing license to reproduce, distribute, publicly display, and publicly perform the Licensed IP. As consideration of the license granted, the Licensee shall pay the Company royalty fees of 5% of its gross revenue for a period of three years. On January 1, 2017, the consideration was increased to be 10% of gross revenue. During the period ended September 30, 2018, the Company recognized royalty income of \$324,085 (September 30, 2017: \$364,905).

During the period ended September 30, 2018, the Company incurred \$380,632 as expense paid on behalf of two companies controlled by the Company's CEO (December 31, 2017: \$191,120) in connection with the start-up of the businesses. The ability of these companies to repay the amounts owing is uncertain and therefore the amounts receivable have been impaired in full.

Equity

During the period ended September 30, 2018, the Company issued 326,785 common shares to directors of the Company for services rendered for a fair value of \$13,465, recorded as share based payments.

8. CONVERTIBLE DEBENTURES

On July 6, 2018, the Company entered into convertible secured debenture agreements (individually, the “Convertible Debenture”) for an aggregate principal amount of USD \$553,995 (CAD \$735,000). The Convertible Debenture bears interest at 0% per annum, provided, however that if the LOI is terminated in accordance with its terms, the Company shall pay interest at the rate of 9% per annum from the date that is the three month anniversary of the date of termination of the LOI. 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 LOI is duly terminated pursuant to its terms, then October 18, 2019. Upon closing of the Transaction, the principal amount of this Convertible Debenture shall automatically, without any action on the part of the lender, convert into shares at CAD \$0.035 per share.

For accounting purposes, the convertible debenture is considered a liability since the conversion feature is not “fixed for fixed” as the Company’s functional currency is the US Dollar and is therefore considered an embedded derivative. However, the embedded derivative liability has no value, therefore, the convertible debenture is recorded at fair value of its proceeds received. The conversion into shares is also dependent on the closing of the Transaction, which is not within the control of the Company.

9. COMMITMENTS

Vehicle loans

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

A continuity of the vehicle loans is as follows:

	September 30, 2018	December 31, 2017
Balance, at the beginning of the year	\$ 90,253	\$ 57,310
Loans issued during the year	64,991	48,444
Interest expense	5,841	7,993
Repayments of loans payable	(20,272)	(15,630)
Amounts included in accounts payable (Note 5)	281	7,864
	119,690	90,253
Current	24,474	27,030
Long-term	\$ 95,216	\$ 63,223

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

Year	Principal payments
2018	\$ 7,979
2019	25,496
2020	28,394
2021	22,948
2022	23,652
2023	11,221
Total	\$ 119,690

9. COMMITMENTS (continued)

Operating lease

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

<u>Year</u>	<u>Lease payments</u>
2018	\$ 33,000
2019	54,000
<u>Total</u>	<u>\$ 87,000</u>

10. SHARE CAPITAL

Authorized share capital

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

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

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

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

Common shares

During the six months ended September 30, 2018, the Company issued 365,999 common shares for services rendered for a fair value of \$13,022, recorded as share based payments, of which 276,785 common shares were issued to directors of the Company.

11. SUBSEQUENT EVENTS

- (a) Effective October 2018, the Company executed a forward stock-split of its issued and outstanding common shares on a 1 to 6.375 basis. All references to common shares in the subsequent events notes have been adjusted to reflect this change.
- (b) Subsequent to period ended September 30, 2018, the Company issued 747,497 common shares for services, of which 719,390 were issued to related parties.
- (c) On October 2, 2018, the Company entered into convertible secured debenture agreements (individually, the “Convertible Debenture”) for an aggregate principal amount of CAD \$1,200,000, of which USD \$707,880 has been received during the period ended September 30, 2018. The Convertible Debenture bears interest at 0% per annum, provided, however that if the LOI is terminated in accordance with its terms, the Company shall pay interest at the rate of 9% per annum from the date that is the three month anniversary of the date of termination of the LOI. 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 LOI is duly terminated pursuant to its terms, then October 18, 2019. Upon closing of the Transaction, the principal amount of this Convertible Debenture shall automatically, without any action on the part of the lender, convert into shares at CAD \$0.25 per share.

11. SUBSEQUENT EVENTS (continued)

- (d) Subsequent to September 30, 2018, the Company entered into convertible secured debenture agreements (individually, the "Convertible Debenture") for an aggregate principal amount of CAD\$1,520,000. The Convertible Debenture bears interest at 0% per annum, provided, however that if the LOI is terminated in accordance with its terms, the Company shall pay interest at the rate of 9% per annum from the date that is the three month anniversary of the date of termination of the LOI. 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 LOI is duly terminated pursuant to its terms, then October 18, 2019. Upon closing of the Transaction, CAD\$270,000 and CAD\$1,250,000 of the principal amount of this Convertible Debenture shall automatically, without any action on the part of the lender, convert into shares at CAD\$0.25 and CAD\$0.40 per share, respectively.
- (e) On November 26, 2018, the Company closed a first tranche of its non-brokered subscription receipts ("Subscription Receipts") private placement offering by issuing 8,110,000 subscription receipts for gross proceeds of CAD \$4,055,000. Concurrent with the Subscription Receipts offering, the Company issued convertible debentures (the "Debentures") in the principal amounts of CAD\$1,386,708. In addition, the Company also issued 2,000,000 shares at an issue price of CAD\$0.50 to settle amounts owing to an arm's length third party equal to CAD\$1,000,000.

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

The gross proceeds from the issuance of Subscription Receipts have been deposited with Odyssey Trust Company (the "Subscription Receipt Agent"), in escrow (the "Escrowed Proceeds") pursuant to a subscription receipt agreement (the "Subscription Receipt Agreement"). The Escrowed Proceeds will be released by the Subscription Receipt Agent to Blacklist Finco upon receipt of a notice (the "Release Notice") to the Subscription Receipt Agent from Blacklist Finco upon closing of the Transaction.

- (f) On December 10, 2018, the Company closed a second tranche of its non-brokered subscription receipts private placement offering by issuing 6,170,146 subscription receipts for gross proceeds of CAD \$3,085,073. Concurrent with the Subscription Receipts offering, the Company issued convertible debentures in the principal amounts of CAD \$332,700. In addition, the Company also issued 459,390 shares at an issue price of CAD \$0.50 to settle debts owing to certain officers and directors of the Company totaling CAD \$229,695. The terms of the subscription receipts offering and convertible debentures are the same as note 10(c).
- (g) On January 17, 2019, the Company entered into a secured promissory note agreement, whereby the Company promises to pay CAD \$237,500. The secured promissory note is interest bearing at 18%, secured and due on March 1, 2019.

11. SUBSEQUENT EVENTS (continued)

- (h) On January 30, 2019, the Company entered into a grid promissory note, whereby the Company promises to pay CAD\$3,250,000 and an additional fee of CAD\$260,000. For the funds received, the Company enters into a subordination agreement to a proposed bridge loan from an unrelated third party on substantially the same terms. Concurrently, the Company entered into a Bridge Loan agreement (the "Bridge Loan"), whereby the Company will receive a loan of CAD\$3,500,000. The Bridge Loan is secured, matures one year from the date closing date and carries an annual interest rate of 17%, compounded monthly, payable in arrears. The Bridge Loan has a minimum interest payment \$162,225 (CAD\$210,000), should the principal be repaid prior to the maturity date. In connection with the loan, a financing fee of \$81,112 (CAD\$105,000) will be paid and 1,500,000 share purchase warrants will be issued. Each warrant is exercisable at CAD\$0.55 per share for a period of one year from the date of issuance.

SCHEDULE D
BLACKLIST ANNUAL MD&A FOR THE YEAR ENDED DECEMBER 31, 2017 AND
INTERIM MD&A FOR THE NINE MONTH ENDED SEPTEMBER 30, 2018

[See Attached]

Management Discussion and Analysis
For the years ended December 31, 2017 and 2016, and
For the nine months ended September 30, 2018
(Expressed in US Dollars)

This Management Discussion & Analysis (“MD&A”) was prepared by management as at February 27, 2019, and was reviewed and approved by the Audit Committee appointed by the Board of Directors the Company. The following discussion of performance, financial condition and future prospects should be read in conjunction with the interim financial statements for the nine months ended September 30, 2018 and 2017 and the annual audited financial statements for the years ended December 31, 2017 and 2016, and notes thereto (the “Financial Statements”), which have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). The information provided herein supplements but does not form part of the interim financial statements. This discussion covers the nine months ended September 30, 2018, and the subsequent period up to the date of issue of this MD&A. Unless otherwise noted, all dollar amounts are stated in United States dollars.

Forward-Looking Information

This MD&A contains forward-looking statements or forward-looking information within the meaning of the United States Private Securities Litigation Reform Act of 1995, and applicable Canadian securities laws. Forward-looking statements are frequently, but not always, identified by words such as “expects,” “anticipates,” “believes,” “intends,” “estimated,” “potential,” “possible” and similar expressions, or statements that events, conditions or results “will,” “may,” “could” or “should” occur or be achieved. Forward-looking statements are statements concerning the Company’s current beliefs, plans and expectations about the future and are inherently uncertain, and actual achievements of the Company or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation, the risks that: (i) any of the assumptions in the resource estimates turn out to be incorrect, incomplete, or flawed in any respect; (ii) the methodologies and models used to prepare the resource estimates either underestimate or overestimate the resources due to hidden or unknown conditions, (iii) operations are disrupted or suspended due to acts of god, unforeseen government actions or other events; (iv) the Company experiences the loss of key personnel; (v) the Company’s operations are adversely affected by other political or military, or terrorist activities; (vi) the Company becomes involved in any material disputes with any of its key business partners, lenders, suppliers or customers; or (vii) the Company is subjected to any hostile takeover or other unsolicited attempts to acquire control of the Company. Other factors that could cause the actual results to differ include market prices, continued availability of capital and financing, inability to obtain required regulatory approvals and general market conditions. These statements are based on a number of assumptions, including assumptions regarding general market conditions, the timing and receipt of regulatory approvals, the ability of the Company and other relevant parties to satisfy regulatory requirements, the availability of financing for proposed transactions and

programs on reasonable terms and the ability of third-party service providers to deliver services in a timely manner. Other risks are more fully described under the heading “RISKS AND UNCERTAINTIES” below. The Company’s forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made and the Company assumes no obligation to update such forward-looking statements in the future, except as required by law. For the reasons set forth above, investors should not place undue reliance on the Company’s forward-looking statements.

Description of Business

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

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

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

Financial Information

Annual Information

The following table sets forth selected financial information for the Company for the years ended December 31, 2017 and 2016. Such information is derived from the financial statements of the Company and should be read in conjunction with such financial statements.

	Year ended December 31, 2017	Year ended December 31, 2016
Revenues	2,235,828	1,066,222
Cost of Goods Sold	918,361	484,517
Gross Income	<u>1,317,467</u>	<u>581,705</u>
Total Operating Expenses	1,421,438	761,552
Loss from Operations	<u>(103,971)</u>	<u>(179,847)</u>
Other Items	(224,443)	(30,437)
Net Loss	<u>(328,414)</u>	<u>(210,284)</u>
	As at	As At
	December 31, 2017	December 31, 2016
Current Assets	614,428	419,979
Property Plant& Equipment	404,004	401,546
Total Assets	<u>1,018,432</u>	<u>821,525</u>
Current Liabilities	1,364,410	866,658
Long Term Liabilities	63,223	41,810
Stockholders Equity	(409,201)	(86,943)
Total Liabilities and Equity	<u>1,018,432</u>	<u>821,525</u>

Dividends

The Company has not declared distributions on their respective issued and outstanding shares in the past.

Any future determination to pay distributions will be at the discretion of the respective Boards of Directors of the Company and will depend on the financial condition, business environment, operating results, capital requirements, any contractual restrictions on the payment of distributions and any other factors that each such Board of Directors deems relevant.

Foreign GAAP

The financial statements included in this Listing Statement have been, and the future financial statements of the Company shall be, prepared in accordance with IFRS.

Revenue

Revenue for the year ending December 31, 2017, increased by \$1,169,606 (109%) from the prior year mainly due to an increase in revenue from our increased sales of packaging and ancillary products and also an increase in licensing revenue. This was a result of growth in the underlying sales of our customer.

Gross Profit

For the year ending December 31, 2017 gross profit increased \$735,762 (129%) year over year as a result of the improved overall sales volume and an increase in Gross Margin. Gross margins increased to 58.9% from 54.6% year over year and were primarily attributable to an increase in licensing revenue and higher margins on ancillary products.

Total Expenses

Overall expenses increased \$659,886 for the year ending December 31, 2017, and was primarily attributable to increased personnel associated with the Company's expected growth and public offering preparation. In addition, business development expenses increased in fiscal year 2017 from the prior year due to increased marketing expenditures connected with new product introductions and expansion initiatives into Oregon and California.

Current Assets

Current assets as at December 31, 2017 increased by \$194,449 in comparison to prior year due to increased accounts receivable as a result of increased sales.

Current Liabilities

Current liabilities as at December 31, 2017 increased by \$497,752 in comparison to prior year due to a combination of increased accounts payable and accrued payroll costs related to sales growth.

Quarterly Information

The following tables set forth selected financial information for the Company for the nine months ended September 30, 2018 and 2017. Such information is derived from the financial statements of the Company and should be read in conjunction with such financial statements.

	Nine Months Ended	Nine Months Ended
	September 30, 2018	September 30, 2017
Revenues	1,765,277	1,635,037
Cost of Goods Sold	1,410,316	638,317
Gross Income	<u>354,911</u>	<u>996,719</u>
Total Operating Expenses	1,624,642	906,675
Income (loss) from Operations	<u>(1,269,731)</u>	<u>90,046</u>
Net Loss	<u>(1,648,570)</u>	<u>(43,041)</u>

	As at	As at
	September 30, 2018	December 31, 2017
Current Assets	611,673	614,428
Property Plant& Equipment	412,550	401,546
Total Assets	<u>1,024,223</u>	<u>1,018,432</u>
Current Liabilities	2,971,696	1,364,410
Long Term Liabilities	95,216	63,223
Stockholders Equity	(2,042,689)	(409,201)
Total Liabilities and Equity	<u>1,024,223</u>	<u>821,525</u>

Revenue

Revenue for the nine months ending September 30, 2018, increased by \$130,240 (8.0%) from the prior period, mainly due to an increase in revenue from our increased sales of packaging and ancillary products. This was a result of growth in the underlying sales of our customer.

Gross Profit

For the nine months ending September 30, 2018, gross profit decreased by \$641,809 (64.4%) from prior period due to reversal of revenue due to uncollectability of accounts receivable during the period.

Total Expenses

Overall expenses increased \$717,968 for the nine months ending September 30, 2018 in comparison to prior year, due to increased personnel associated with the Company's expected growth and public offering preparation. In addition, business development expenses increased in 2018 from the prior period due to increased marketing expenditures connected with new product introductions and expansion initiatives into Oregon and California.

Current Assets

Current assets as at September 30, 2018, decreased by \$2,755 in comparison to December 31, 2017, due to impairment of accounts receivable due to uncollectability.

Current Liabilities

Current liabilities as at September 30, 2018, increased by \$1,607,286 in comparison to December 31, 2017 due to a issuance of convertible debentures and a combination of increased accounts payable, accrued payroll costs and notes payable related to sales growth.

Discussion of Operations

The Company plans to expand the licensing of IONIC™ brand and line of products into U.S. states where recreational marijuana are legal by contracting with local state license holders in those states to produce and distribute IONIC™ brand products. The Company will be paid an amount equal to sales made by its Customers to third parties less fees charged by them for distribution and production, negotiated on a state-by-state basis, for each unit or a derivative thereof sold. The Company may also enter into financial transactions to support licensees or affiliated manufacturing companies in order to promote, support, and develop sales and distribution of DIXIE™ products including through investment in joint ventures in various states. The Company currently provides and will continue to provide consulting services to manufacturers and retailers, in compliance with applicable state law; serve as a real estate, fixtures and equipment holding and management company that will acquire, lease, develop and/or manage real property, industrial fixtures and equipment and lease and/or sublease such infrastructure to manufacturers and retailers; invest in such companies, in compliance with applicable state law; and enter into financial transactions to support such, including, without

limitation, loan transactions, in order to promote, support, and develop sales and distribution of products utilizing its portfolio of intellectual property.

Significant Events or Milestones

Over the next twelve months, the Company has allocated \$695,000 to secure license agreements and launch operations in Nevada and Arizona.

Liquidity & Capital Resources

The Company's objective in managing liquidity risk is to maintain sufficient liquidity in order to meet operational and investing requirements. The Company has historically financed its operations primarily through the sale of share capital by way of private placements.

The Company's condensed interim financial statements for the nine months ended September 30, 2018, have been prepared on a going concern basis, which assumes that the Company will continue in operation in the foreseeable future and will be able to realize its assets and settle its liabilities in the normal course of business. At September 30, 2018, the Company had a working capital deficiency of \$2,360,023 (December 31, 2017 – \$749,982). The Company had a deficit of \$2,188,747 as at September 30, 2018 (December 31, 2017 – \$540,177).

To maintain liquidity, the Company issued the following securities for cash proceeds:

- During the period ended September 30, 2018 the Company entered into convertible secured debenture agreements for an aggregate principal amount of USD \$553,995.
- Subsequent to September 30, 2018, the Company entered into convertible secured debenture agreements for an aggregate principal amount of CAD \$1,200,000, CAD\$1,520,000, CAD\$1,386,708 and CAD\$332,700.
- On November 26 and December 10, 2018, the Company closed the first and second tranche of its non-brokered subscription receipts private placement offering for an aggregate issuance of 14,280,146 subscription receipts for total gross proceeds of CAD\$7,140,073. Each subscription receipt was sold at an issue price of CAD \$0.50 subject to satisfaction of certain escrow conditions and completion of the Transaction, each subscription receipt will be exchanged for one post-consolidated common share of Zara.
- On January 17, 2019, the Company entered into a secured promissory note agreement, whereby the Company promises to pay CAD \$237,500.
- On January 30, 2019, the Company entered into a grid promissory note, whereby the Company promises to pay CAD\$3,250,000.

The development of the Company's in the future will depend on the Company's ability to obtain additional financings. In the past, the Company has relied on the issuance of equity and debt securities to meet its cash requirements. Funding for potential future development obligations,

in excess of funds on hand, will depend on the Company's ability to obtain financing through debt and equity financing, or other means. There can be no assurances that the Company will be successful in obtaining any such financing; failure to obtain such additional financing could result in the delay or indefinite postponement of further development of the Company's operations.

Uses of Proceeds

Proceeds from the financings will be used to repay remaining indebtedness including outstanding promissory notes, fund continued revenue growth in Washington, Oregon, California and Nevada, provide capital for expansion into new U.S. states such as Arizona, for general working capital, for product development, and to further develop the management team and company infrastructure to support international expansion efforts. Notwithstanding the foregoing, there may be circumstances where, for sound business reasons, a reallocation of funds may be necessary for the Company to achieve its objectives. The Company may require additional funds beyond the funds raised in order to fulfill all of its expenditure requirements to meet its new business objectives and expects to either issue additional securities or incur debt. There can be no assurance that additional funding required by the Company will be available if required. However, it is anticipated that available funds subsequent to closing this Offering will be sufficient to satisfy the Company's objectives over the next 12 months.

Financial Risk Management

Market risk

Strategic and operational risks arise if the Company fails to carry out business operations and/or to raise sufficient equity and/ or debt financing. These strategic opportunities or threats arise from a range of factors that might include changing economic and political circumstances and regulatory approvals and competitor actions. The risk is mitigated by consideration of other potential development opportunities and challenges which management may undertake.

Credit risk

The Company's exposure to non-payment or non-performance by our counterparties is a credit risk. The maximum credit exposure as at September 30, 2018 is the carrying amount of cash, accounts receivable and other receivables and promissory notes receivable. The Company has a significant outstanding balance in accounts receivable over 90 days as of September 30, 2018. The Company mitigates its credit risk on its other receivables through its review of the counterparties and business review.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's cash holdings. As at September 30, 2018, the Company's financial liabilities consist of accounts payable, accrued liabilities, and notes payable which have contractual maturity dates within one-year. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. The Company's ability to meet its financial obligations is based on its ability to complete equity cash raises or to borrow money.

Asset forfeiture risk

Because the cannabis industry remains illegal under U.S. federal law, any property owned by participants that conduct business with affiliates in the cannabis industry, which either are used in the course of conducting such business, or are the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property are never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture.

Banking risk

Notwithstanding that a many of states have legalized recreational cannabis, there has been no change in U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the cannabis industry. Given that U.S. federal law provides that the production and possession of cannabis is illegal, there is a strong argument that banks cannot accept for deposit funds from businesses involved with the cannabis industry. Consequently, businesses involved in the cannabis industry often have difficulty accessing the U.S. banking system and traditional financing sources. The inability to open bank accounts with certain institutions may make it difficult to operate ordinary businesses.

Interest rate risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The Company's interest-bearing loans and borrowings are all at fixed interest rates. The Company considers interest rate risk to be immaterial.

Capital structure risk management

The Company considers its capital structure to include debt financing, contributed capital, accumulated deficit, non-controlling interests and any other component of members' equity. The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages its capital structure and adjusts it as appropriate given changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new units, issue new debt, or acquire or dispose of

assets. The Company is not subject to externally imposed capital requirements. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes to the Company's capital management approach during the year ended December 31, 2017.

Outstanding Share Data

As of the date of this MD&A, the Company has 54,251,241 common shares issued and outstanding. No options and warrants are issued.

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

- 127,500,000 common shares with \$0.0001 par value – voting, non-redeemable and noncumulative;
- 2,000,000 Preferred Stock with \$0.0001 par value – non-voting and noncumulative;
- 2,000,000 Class A Convertible Preferred Stock with \$0.0001 par value – voting, with stated value of \$1.00, cumulative dividends at the rate per share of 7.5% per annum, and convertible at the option of the holder, at any time, into common shares at a conversion price of \$1.00.

Common shares

During the six months ended September 30, 2018, the Company issued 365,999 common shares for services rendered for a fair value of \$13,022, recorded as share based payments, of which 276,785 common shares were issued to directors of the Company.

Convertible debentures

On July 6, 2018, the Company entered into convertible secured debenture agreements (individually, the "Convertible Debenture") for an aggregate principal amount of USD \$553,995 (CAD \$735,000). The Convertible Debenture bears interest at 0% per annum, provided, however that if the LOI is terminated in accordance with its terms, the Company shall pay interest at the rate of 9% per annum from the date that is the three month anniversary of the date of termination of the LOI. 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 LOI is duly terminated pursuant to its terms, then October 18, 2019. Upon closing of the Transaction, the principal amount of this Convertible Debenture shall automatically, without any action on the part of the lender, convert into shares at CAD \$0.035 per share.

For accounting purposes, the convertible debenture is considered a liability since the conversion feature is not "fixed for fixed" as the Company's functional currency is the US Dollar and is therefore considered an embedded derivative. However, the embedded derivative liability has no value, therefore, the convertible debenture is recorded at fair value of its proceeds received. The conversion into shares is also dependent on the closing of the Transaction, which is not within the control of the Company.

Subsequent Events

- (a) Effective October 2018, the Company executed a forward stock-split of its issued and outstanding common shares on a 1 to 6.375 basis. All references to common shares in the subsequent events notes have been adjusted to reflect this change.
- (b) Subsequent to period ended September 30, 2018, the Company issued 747,497 common shares for services, of which 719,390 were issued to related parties.
- (c) On October 2, 2018, the Company entered into convertible secured debenture agreements (individually, the “Convertible Debenture”) for an aggregate principal amount of CAD \$1,200,000, of which USD \$707,880 has been received during the period ended September 30, 2018. The Convertible Debenture bears interest at 0% per annum, provided, however that if the LOI is terminated in accordance with its terms, the Company shall pay interest at the rate of 9% per annum from the date that is the three month anniversary of the date of termination of the LOI. 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 LOI is duly terminated pursuant to its terms, then October 18, 2019. Upon closing of the Transaction, the principal amount of this Convertible Debenture shall automatically, without any action on the part of the lender, convert into shares at CAD \$0.25 per share.
- (d) Subsequent to September 30, 2018, the Company entered into convertible secured debenture agreements (individually, the “Convertible Debenture”) for an aggregate principal amount of CAD \$1,520,000. The Convertible Debenture bears interest at 0% per annum, provided, however that if the Letter of Intent is terminated in accordance with its terms, the Company shall pay interest at the rate of 9% per annum from the date that is the three month anniversary of the date of termination of the Letter of Intent. The interest shall accrue and shall be payable on the earlier of the maturity date or upon conversion of the Convertible Debenture. The Convertible Debenture is due on October 18, 2020, provided however, that if the Letter of Intent is duly terminated pursuant to its terms, then October 18, 2019. Upon closing of the Transaction, CAD \$270,000 and CAD \$1,250,000 of the principal amount of this Convertible Debenture shall automatically, without any action on the part of the lender, convert into shares at CAD \$0.25 and \$0.40 per share, respectively.
- (e) On November 26, 2018, the Company closed a first tranche of its non-brokered subscription receipts (“Subscription Receipts”) private placement offering by issuing 8,110,000 subscription receipts for gross proceeds of CAD \$4,055,000. Concurrent with the Subscription Receipts offering, the Company issued convertible debentures (the “Debentures”) in the principal amounts of CAD \$1,386,708. In addition, the Company also issued 2,000,000 shares at an issue price of CAD \$0.50 to settle amounts owing to an arm’s length third party equal to CAD \$1,000,000.

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

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

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

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

the terms of the Proposed Transaction. The Debentures are secured by a general security agreement of Blacklist.

- (f) On December 10, 2018, the Company closed a second tranche of its non-brokered subscription receipts private placement offering by issuing 6,170,146 subscription receipts for gross proceeds of CAD \$3,085,073. Concurrent with the Subscription Receipts offering, the Company issued convertible debentures in the principal amounts of CAD \$332,700. In addition, the Company also issued 459,390 shares at an issue price of CAD \$0.50 to settle debts owing to certain officers and directors of the Company totaling CAD \$229,695. The terms of the subscription receipts offering and convertible debentures are the same as note (d).
- (g) On January 17, 2019, the Company entered into a secured promissory note agreement, whereby the Company promises to pay CAD \$237,500. The secured promissory note is interest bearing at 18%, secured and due on March 1, 2019.
- (h) On January 30, 2019, the Company entered into a grid promissory note, whereby the Company promises to pay CAD\$3,250,000 and an additional fee of CAD\$260,000. For the funds received, the Company enters into a subordination agreement to a proposed bridge loan from an unrelated third party on substantially the same terms. Concurrently, the Company entered into a Bridge Loan agreement (the "Bridge Loan"), whereby the Company will receive a loan of CAD\$3,500,000. The Bridge Loan is secured, matures one year from the date closing date and carries an annual interest rate of 17%, compounded monthly, payable in arrears. The Bridge Loan has a minimum interest payment \$162,225 (CAD\$210,000), should the principal be repaid prior to the maturity date. In connection with the loan, a financing fee of \$81,112 (CAD\$105,000) will be paid and 1,500,000 share purchase warrants will be issued. Each warrant is exercisable at CAD\$0.55 per share for a period of one year from the date of issuance.

Critical Accounting Estimates

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of income and expenses during the reporting period. Estimates and assumptions 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 circumstances. However, actual outcomes may differ significantly from these estimates.

Areas requiring a significant degree of judgment relate to the recoverability and measurement of deferred tax assets and liabilities, the ability to continue as a going concern and the capitalization of development costs. Actual results may differ from those estimates and judgments. Areas requiring a significant degree of estimation include allowances for doubtful accounts.

Areas requiring a significant degree of judgement that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are as follows:

Estimated useful lives and depreciation of property, plant and equipment

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

Impairment

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

Allowance for doubtful accounts, and the recoverability of receivables

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

Contingencies

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

Income taxes

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

Significant Accounting Policies

The Company's significant accounting policies are summarized in Note 2 to the audited consolidated financial statements for the year ended December 31, 2017 and 2016.

Future Changes in Accounting Policies

The International Accounting Standards Board ("IASB") has issued or amended a number of new standards that were not be effective at December 31, 2017. These standards have not been early adopted in these consolidated financial statements.

IFRS 7, Financial Instruments Disclosures (effective January 1, 2018) requires new disclosures resulting from the amendments to IFRS 9.

IFRS 9, Financial Instruments (effective January 1, 2018) introduces new requirements for the classification and measurement of financial assets and liabilities. The Company does not expect the adoption of IFRS 9 to have an impact on its consolidated financial statements.

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS 11 Construction Contracts, IAS 18 Revenue, IFRS Interpretations Committee ("IFRIC") 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Asset from Customers, and SIC 31 Revenue Barter Transactions involving Advertising Services. IFRS 15 establishes a single five-step framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect the adoption of IFRS 15 to have an impact on its consolidated financial statements.

IFRS 16, Leases was issued in January 2016 (effective January 1, 2019) and provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The Company is does not expect the adoption of IFRS 16 to have an impact on its consolidated financial statements.

On June 30, 2016, the IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations, and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments apply for annual periods beginning on or after January 1, 2018. The Company intends to adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning on January 1, 2018. The Company does not expect the adoption of IFRS 2 to have an impact on its consolidated financial statements.

Management does not expect any other IFRS or IFRIC pronouncements that are not yet effective to have a material impact on the Company.

**SCHEDULE E
STOCK OPTION PLAN**

[See Attached]

CORPORATION STOCK OPTION PLAN

ZARA RESOURCES INC. (the “Corporation”)

STOCK OPTION PLAN

1. Purpose

The purpose of the Plan is to: (i) provide an incentive to the directors, officers, employees, consultants and other personnel of the Corporation or any of its subsidiaries to achieve the longer objectives of the Corporation; (ii) give suitable recognition to the ability and industry of such persons who contribute materially to the success of the Corporation; and (iii) attract to and retain in the employ of the Corporation or any of its subsidiaries, persons of experience and ability, by providing them with the opportunity to acquire an increased proprietary interest in the Corporation.

2. Definitions and Interpretation

When used in this Plan, unless there is something in the subject matter or context inconsistent therewith, the following words and terms shall have the respective meanings ascribed to them as follows:

- (a) **“Board of Directors”** means the Board of Directors of the Corporation;
- (b) **“Common Shares”** means common shares in the capital of the Corporation;
- (c) **“Corporation”** means Zara Resources Inc. and any successor corporation and any reference herein to action by the Corporation means action by or under the authority of its Board of Directors or a duly empowered committee appointed by the Board of Directors;
- (d) **“Discounted Market Price”** means the last per share closing price for the Common Shares on the Exchange before the date of grant of an Option, less any applicable discount under Exchange Policies;
- (e) **“Exchange”** means the Canadian Securities Exchange or any other stock exchange on which the Common Shares are listed;
- (f) **“Exchange Policies”** means the policies of the Exchange, including those set forth in the Corporate Finance Manual of the Exchange;
- (g) **“Insider”** has the meaning ascribed thereto in Exchange Policies;
- (h) **“Market Price”** at any date in respect of the Common Shares shall be the closing price of such Common Shares on any Exchange (and if listed on more than one Exchange, then the highest of such closing prices) on the last business day prior to the date of grant (or, if such Common Shares are not then listed and posted for trading on the Exchange, on such stock exchange in Canada on which the Common Shares are listed and posted for trading as may be selected for such purpose by the Board of Directors). In the event that such Common Shares did not trade on such business day, the Market Price shall be the average of the bid and asked prices in respect of such Common Shares at the close of trading on such date. In the event that such Common Shares are not listed and posted for trading on any stock exchange, the Market Price shall be the fair market value of such. Common Shares as determined by the Board of Directors in its sole discretion;
- (i) **“Option”** means an option granted by the Corporation to an Optionee entitling such Optionee to acquire a designated number of Common Shares from treasury at a price determined by the Board of Directors;

(j) **“Option Period”** means the period determined by the Board of Directors during which an Optionee may exercise an Option, not to exceed the maximum period permitted by the Exchange, which maximum period is ten (10) years from the date the Option is granted;

(k) **“Optionee”** means a person who is a director, officer, employee, consultant or other personnel of the Corporation or a subsidiary of the Corporation; a corporation wholly-owned by such persons; or any other individual or body corporate who may be granted an option pursuant to the requirements of the Exchange, who is granted an Option pursuant to this Plan;

(l) **“Plan”** shall mean the Corporation's incentive stock option plan as embodied herein and as from time to time amended;

(m) **“Securities Act”** means the *Securities Act* (Ontario), as amended, or such other successor legislation as may be enacted, from time to time; and

(n) **“Securities Laws”** means securities legislation, securities regulation and securities rules, as amended, and the policies, notices, instruments and blanket orders in force from time to time that govern or are applicable to the Corporation or to which it is subject, including, without limitation, the Securities Act.

Capitalized terms in the Plan that are not otherwise defined herein shall have the meaning set out in the Exchange Policies, including without limitation “Consultant”, “Disinterested Shareholder Approval”, “Employee”, “Insider”, “Investor Relations Activities” and “Management Company Employee”.

Wherever the singular or masculine is used in this Plan, the same shall be construed as meaning the plural or feminine or body corporate and vice versa, where the context or the parties so require.

3. Administration

The Plan shall be administered by the Board of Directors. The Board of Directors shall have full and final discretion to interpret the provisions of the Plan and to prescribe, amend, rescind and waive rules and regulations to govern the administration and operation of the Plan. All decisions and interpretations made by the Board of Directors shall be binding and conclusive upon the Corporation and on all persons eligible to participate in the Plan, subject to shareholder approval if required by the Exchange. Notwithstanding the foregoing or any other provision contained herein, the Board of Directors shall have the right to delegate the administration and operation of the Plan to a special committee of directors appointed from time to time by the Board of Directors, in which case all references herein to the Board of Directors shall be deemed to refer to such committee.

4. Eligibility

The Board of Directors may at any time and from time to time designate those Optionees who are to be granted an Option pursuant to the Plan and grant an Option to such Optionee. Subject to Exchange Policies and the limitations contained herein, the Board of Directors is authorized to provide for the grant and exercise of Options on such terms (which may vary as between Options) as it shall determine. No Option shall be granted to any person except upon recommendation of the Board of Directors. A person who has been granted an Option may, if he is otherwise eligible and if permitted by Exchange Policies, be granted an additional Option or Options if the Board of Directors shall so determine. Subject to Exchange Policies, the Corporation shall represent that the Optionee is a bona fide Employee, Consultant or Management Company Employee (as such terms are defined in Exchange Policies) in respect of Options granted to such Optionees.

5. Participation

Participation in the Plan shall be entirely voluntary and any decision not to participate shall not affect an Optionee's relationship or employment with the Corporation.

Notwithstanding any express or implied term of this Plan or any Option to the contrary, the granting of an Option pursuant to the Plan shall in no way be construed as conferring on any Optionee any right with respect to continuance as a director, officer, employee or consultant of the Corporation or any subsidiary of the Corporation.

Options shall not be affected by any change of employment of the Optionee or by the Optionee ceasing to be a director or officer of or a consultant to the Corporation or any of its subsidiaries, where the Optionee at the same time becomes or continues to be a director, officer or full-time employee of or a consultant to the Corporation or any of its subsidiaries.

No Optionee shall have any of the rights of a shareholder of the Corporation in respect to Common Shares issuable on exercise of an Option until such Common Shares shall have been paid for in full and issued by the Corporation on exercise of the Option, pursuant to this Plan.

6. Common Shares Subject to Options

The number of authorized but unissued Common Shares that may be issued upon the exercise of Options granted under the Plan at any time plus the number of Common Shares reserved for issuance under outstanding incentive stock options otherwise granted by the Corporation shall not exceed 10% of the issued and outstanding Common Shares on a non-diluted basis at any time, and such aggregate number of Common Shares shall automatically increase or decrease as the number of issued and outstanding Common Shares changes. The Options granted under the Plan together with all of the Corporation's other previously established stock option plans or grants, shall not result at any time in:

- (a) the number of Common Shares reserved for issuance pursuant to Options granted to Insiders exceeding 10% of the issued and outstanding Common Shares;
- (b) the grant to Insiders within a 12-month period, of a number of Options exceeding 10% of the outstanding Common Shares;
- (c) the grant to any one (1) Optionee within a twelve month period, of a number of Options exceeding 5% of the issued and outstanding Common Shares unless the Corporation obtains the requisite Disinterested Shareholder Approval;
- (d) the grant to all persons engaged by the Corporation to provide Investor Relations Activities, within any twelve-month period, of Options reserving for issuance a number of Common Shares exceeding in the aggregate 2% of the Corporation's issued and outstanding Common Shares; or
- (e) the grant to any one Consultant, in any twelve-month period, of Options reserving for issuance a number of Common Shares exceeding in the aggregate 2% of the Corporation's issued and outstanding Common Shares.

Appropriate adjustments shall be made as set forth in Section 15 hereof, in both the number of Common Shares covered by individual grants and the total number of Common Shares authorized to be issued hereunder, to give effect to any relevant changes in the capitalization of the Corporation.

If any Option granted hereunder shall expire or terminate for any reason without having been exercised in full, the unpurchased Common Shares subject thereto shall again be available for the purpose of the Plan.

7. Option Agreement

A written agreement will be entered into between the Corporation and each Optionee to whom an Option is granted hereunder, which agreement will set out the number of Common Shares subject to option, the exercise price and any other terms and conditions approved by the Board of Directors, all in accordance with the provisions of this Plan (herein referred to as the “**Stock Option Agreement**”). The Stock Option Agreement will be in such form as the Board of Directors may from time to time approve, and may contain such terms as may be considered necessary in order that the Option will comply with any provisions respecting options in the income tax or other laws in force in any country or jurisdiction of which the Optionee may from time to time be a resident or citizen or the rules of any regulatory body having jurisdiction over the Corporation.

8. Option Period and Exercise Price

Each Option and all rights thereunder shall be expressed to expire on the date set out in the respective Stock Option Agreement, which shall be the date of the expiry of the Option Period (the “**Expiry Date**”), subject to earlier termination as provided in Sections 11 and 12 hereof.

Subject to Exchange Policies and any limitations imposed by any relevant regulator) authority, the exercise price of an Option granted under the Plan shall be as determined by the Board of Directors when such Option is granted and shall be an amount at least equal to the Discounted Market Price of the Common Shares.

In addition to any resale restrictions under Securities Laws, any Option granted under this Plan and any Common Shares issued upon the due exercise of any such Option so granted will be subject to a four-month Exchange hold period commencing from the date of grant of the Option, if the exercise price of the Option is granted at less than the Market Price, in which case the Option, and the Common Shares issued upon due exercise of the Option, if applicable, will bear the following legend:

“Without prior written approval of the Exchange and compliance with all applicable securities legislation, the securities represented by this certificate may not be sold, transferred, hypothecated or otherwise traded on or through the facilities of the Exchange or otherwise in Canada or to or for the benefit of a Canadian resident until [four months and one day from the date of grant].”

9. Exercise of Options

An Optionee shall be entitled to exercise an Option granted to him at any time prior to the expiry of the Option Period, subject to Sections 11 and 12 hereof and to vesting limitations which may be imposed by the Board of Directors at the time such Option is granted. Subject to Exchange Policies, the Board of Directors may, in its sole discretion, determine the time during which an Option shall vest and the method of vesting, or that no vesting restriction shall exist.

Notwithstanding any other provision hereof, Options granted to persons engaged to provide Investor Relations Activities shall vest in stages over a period of 12 months from the date of grant with no more than 1/4 of any such Options granted vesting in any three-month period.

The exercise of any Option will be conditional upon receipt by the Corporation at its head office of: (i) a written notice of exercise, specifying the number of Common Shares in respect of which the Option is being exercised; (ii) cash payment, certified cheque or bank draft for the full purchase price of such Common Shares with respect to which the Option is being exercised; and (iii) make suitable arrangements with the Corporation, in accordance with Section 10, for the receipt by the Corporation of an amount sufficient to satisfy any withholding tax requirements under applicable tax legislation in respect of the exercise of an Option (the “**Withholding Obligations**”).

Common Shares shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Common Shares pursuant thereto shall comply with all relevant provisions of applicable securities law, including, without limitation, the 1933 Act, the United States Securities and Exchange Act of 1934, as amended, applicable U.S. state laws, the rules and regulations promulgated thereunder, and the requirements of any stock exchange or consolidated stock price reporting system on which prices for the Common Shares are quoted at any given time. As a condition to the exercise of an Option, the Corporation may require the person exercising such Option to represent and warrant at the time of any such exercise that the Common Shares are being purchased only for investment and without any present intention to sell or distribute such Common Shares if, in the opinion of counsel for the Corporation, such a representation is required by law.

10. Withholding Taxes

Upon the exercise of an Option by an Optionee, the Corporation shall have the right to require the Optionee to remit to the Corporation an amount sufficient to satisfy any Withholding Obligations relating thereto under applicable tax legislation. Unless otherwise prohibited by the Board of Directors or by applicable law, satisfaction of the amount of the Withholding Obligations (the “**Withholding Amount**”) may be accomplished by any of the following methods or by a combination of such methods as determined by the Corporation in its sole discretion:

(i) the tendering by the Optionee of cash payment to the Corporation in an amount less than or equal to the Withholding Amount; or

(ii) the withholding by the Corporation from the Common Shares otherwise due to the Optionee such number of Common Shares as it determines are required to be sold by the Corporation, as trustee, to satisfy the Withholding Amount (net of selling costs). By executing and delivering the option agreement, the Optionee shall be deemed to have consented to such sale and have granted to the Corporation an irrevocable power of attorney to effect the sale of such Common Shares and to have acknowledged and agreed that the Corporation does not accept responsibility for the price obtained on the sale of such Common Shares;

(iii) the withholding by the Corporation from any cash payment otherwise due by the Corporation to the Optionee, including salaries, directors fees, accounting fees and any other forms of remuneration, such amount of cash as is required to pay and satisfy the Withholding Amount; provided, however, in all cases, that the sum of any cash so paid or withheld and the fair market value of any Common Shares so withheld is sufficient to satisfy the Withholding Amount.

The provisions of the option agreement shall provide that the Optionee (or their beneficiaries) shall be responsible for all taxes with respect to any Options granted under the Plan and an acknowledgement that neither the Board of Directors nor the Corporation shall make any representations or warranties of any nature or kind whatsoever to any person regarding the tax treatment of Options or payments on account of the Withholding Amount made under the Plan and none of the Board of Directors, the Corporation, nor any of its employees or representatives shall have any liability to an Optionee (or its beneficiaries) with respect thereto.

11. Ceasing to be a Director, Officer, Employee or Consultant

If an Optionee ceases to be a director, officer, employee or consultant of the Corporation or its subsidiaries for any reason other than death, the Optionee may, but only within ninety (90) days after the Optionee's ceasing to be a director, officer, employee or consultant (or 30 days in the case of an Optionee engaged in Investor Relations Activities) or prior to the expiry of the Option Period, whichever is earlier, exercise any Option held by the Optionee, but only to the extent that the Optionee was entitled to exercise the Option at the date of such cessation. For greater certainty, any Optionee who is deemed to be an employee of the Corporation pursuant to any medical or disability plan of the Corporation shall be deemed to be an employee for the purposes of the Plan.

12. Death of Optionee

In the event of the death of an Optionee, the Option previously granted to him shall be exercisable within one (1) year following the date of the death of the Optionee or prior to the expiry of the Option Period, whichever is earlier, and then only:

- (a) by the person or persons to whom the Optionee's rights under the Option shall pass by the Optionee's will or the laws of descent and distribution, or by the Optionee's legal personal representative; and
- (b) to the extent that the Optionee was entitled to exercise the Option at the date of the Optionee's death.

13. Optionee's Rights Not Transferable

No right or interest of any Optionee in or under the Plan is assignable or transferable, in whole or in part, either directly or by operation of law or otherwise in any manner except by bequeath or the laws of descent and distribution, subject to the requirements of the Exchange, or as otherwise allowed by the Exchange.

Subject to the foregoing, the terms of the Plan shall bind the Corporation and its successors and assigns, and each Optionee and his heirs, executors, administrators and personal representatives.

14. Takeover or Change of Control

The Corporation shall have the power, in the event of:

(a) any disposition of all or substantially all of the assets of the Corporation, or the dissolution, merger, amalgamation or consolidation of the Corporation with or into any other corporation or of such corporation into the Corporation, or

(b) any change in control of the Corporation,

to make such arrangements as it shall deem appropriate for the exercise of outstanding Options or continuance of outstanding Options, including without limitation, to amend any Stock Option Agreement to permit the exercise of any or all of the remaining Options prior to the completion of any such transaction. If the Corporation shall exercise such power, the Option shall be deemed to have been amended to permit the exercise thereof in whole or in part by the Optionee at any time or from time to time as determined by the Corporation prior to the completion of such transaction.

15. Anti-Dilution of the Option

In the event of:

(a) any subdivision, redivision or change of the Common Shares at any time during the term of the Option into a greater number of Common Shares, the Corporation shall deliver, at the time of any exercise thereafter of the Option, such number of Common Shares as would have resulted from such subdivision, redivision or change if the exercise of the Option had been made prior to the date of such subdivision, redivision or change;

(b) any consolidation or change of the Common Shares at any time during the term of the Option into a lesser number of Common Shares, the number of Common Shares deliverable by the Corporation on any exercise thereafter of the Option shall be reduced to such number of Common Shares as would have resulted from such consolidation or change if the exercise of the Option had been made prior to the date of such consolidation or change; or

(c) any reclassification of the Common Shares at any time outstanding or change of the Common Shares into other shares, or in case of the consolidation, amalgamation or merger of the Corporation with or into any other corporation (other than a consolidation, amalgamation or merger which does not result in a reclassification of the outstanding Common Shares or a change of the Common Shares into other shares), or in case of any transfer of the undertaking or assets of the Corporation as an entirety or substantially as an entirety to another corporation, at any time during the term of the Option, the Optionee shall be entitled to receive, and shall accept, in lieu of the number of Common Shares to which he was theretofore entitled upon exercise of the Option, the kind and amount of shares and other securities or property which such holder would have been entitled to receive as a result of such reclassification, change, consolidation, amalgamation, merger or transfer if, on the effective date thereof, he had been the holder of the number of Common Shares to which he was entitled upon exercise of the Option.

Adjustments shall be made successively whenever any event referred to in this section shall occur. For greater certainty, the Optionee shall pay for the number of shares, other securities or property as aforesaid, the amount the Optionee would have paid if the Optionee had exercised the Option prior to the effective date of such subdivision, redivision, consolidation or change of the Common Shares or such reclassification, consolidation, amalgamation, merger or transfer, as the case may be.

16. Costs

The Corporation shall pay all costs of administering the Plan.

17. Termination and Amendment

(a) The Board of Directors may amend or terminate this Plan or any outstanding Option granted hereunder at any time without the approval of the shareholders of the Corporation or any Optionee whose Option is amended or terminated, in order to conform this Plan or such Option, as the case may be, to applicable law or regulation or the requirements of the Exchange or any relevant regulatory authority, whether or not such amendment or termination would affect any accrued rights, subject to the approval of the Exchange or such regulatory authority.

(b) The Board of Directors may amend or terminate this Plan or any outstanding Option granted hereunder for any reason other than the reasons set forth in Section 17(a) hereof, subject to the approval of the Exchange or any relevant regulatory authority and the approval of the shareholders of the Corporation if required by the Exchange or such regulatory authority. Subject to Exchange Policies, Disinterested Shareholder Approval will be obtained for any reduction in the exercise price of an Option if the Optionee is an Insider of the Corporation at the time of the proposed amendment. No such amendment or termination will, without the consent of an Optionee, alter or impair any rights which have accrued to him prior to the effective date thereof.

(c) The Plan, and any amendments thereto, shall be subject to acceptance and approval by the Exchange. Any Options granted prior to such approval and acceptance shall be conditional upon such approval and acceptance being given and no such Options may be exercised unless and until such approval and acceptance are given.

18. Applicable Law

This Plan shall be governed by, administered and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

19. Effective Date

This Plan will become effective as of and from May 27, 2016