

IONIC BRANDS

IONIC BRANDS CORP.

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(EXPRESSED IN UNITED STATES DOLLARS)**

IONIC BRANDS CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in United States Dollars)

	Notes	December 31, 2020	December 31, 2019
ASSETS			
Current Assets			
Cash		\$ 288,383	\$ 704,897
Trade and other receivables	5	1,284,934	3,252,511
Prepaid expenses and deposits	6	111,699	250,491
Inventory	7	140,542	224,651
Due from related parties	13	644,688	341,564
		2,470,246	4,774,114
Non-Current Assets			
Property and equipment	8	782,086	634,437
Patents, trademarks and brand	10	2,102,251	1,480,348
Right-of-Use Asset	9	752,382	958,428
TOTAL ASSETS		\$ 6,106,965	\$ 7,847,327
LIABILITIES AND SHAREHOLDERS' DEFICIENCY			
Current Liabilities			
Accounts payable and accrued liabilities	11	\$ 3,992,197	\$ 2,679,296
Loans payable	12	2,815,025	1,484,236
Current portion of lease liability	9	381,600	434,096
Current portion of vehicle loans	16	30,094	26,606
		7,218,916	4,624,234
Non-Current Liabilities			
Convertible debentures	14	13,994,255	11,973,871
Lease liability	9	193,905	286,137
Vehicle loans	16	87,249	81,139
TOTAL LIABILITIES		\$ 21,494,325	\$ 16,965,381
SHAREHOLDERS' DEFICIENCY			
Share capital	15	41,883,795	40,909,598
Reserves	15	6,662,439	7,415,636
Other comprehensive income		(142,430)	(332,866)
Accumulated deficit		(63,791,164)	(57,110,422)
TOTAL SHAREHOLDERS' DEFICIENCY		(15,387,360)	(9,118,054)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY		\$ 6,106,965	\$ 7,847,327
Nature and continuance of operations	1		
Commitments and contingencies	16		
Subsequent events	21		

Approved and authorized for issue by the Board of Directors on June 22, 2021.

"John Gorst"
Director

"Christian Vara"
Director

The accompanying notes are integral to these consolidated financial statements.

IONIC BRANDS CORP.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Expressed in United States Dollars)

	Notes	December 31, 2020	December 31, 2019
REVENUE			
Product sales	13	\$ 2,183,154	\$ 5,135,007
Equipment rental income	13	921,004	840,588
Royalty and service income	13	5,863,265	4,311,852
		8,967,423	10,287,447
COST OF GOODS SOLD		(7,146,621)	(8,679,142)
GROSS PROFIT		1,820,802	1,608,305
OPERATING EXPENSES			
Accretion	14	1,136,772	1,077,758
Advertising and promotion		5,476	491,400
Bad debts/(recovery)	5, 13	1,293,026	4,079,014
Depreciation and amortization	8, 9, 10	1,247,235	495,537
Financing fees		26,162	514,201
Interest and finance charges	12, 14	1,939,846	1,505,936
Listing expenses	3	-	4,626,778
Marketing and investor relations		19,700	1,371,465
Office and administration		434,096	922,324
Professional fees		906,736	1,996,431
Reorganization expenses		-	1,496,332
Rent expense	13	4,785	124,163
Research and development		71,682	458,517
Salaries and wages	13	1,129,916	3,713,813
Share-based payments	15	42,727	2,194,468
Transfer agent and regulatory fees		57,625	76,912
Travel		78,710	557,212
		8,394,494	25,702,261
OTHER ITEMS			
Gain/(loss) from asset disposal	8	(17,641)	(63,286)
Impairment of goodwill and licenses	10	-	(4,243,307)
Loss on acquisitions	4	-	(9,651,904)
Gain on settlement of debts	15	477,162	260,991
Loss from revaluation of convertible debentures	14	(547,984)	(4,728,285)
Foreign exchange loss		(18,587)	17,113
		(107,050)	(18,408,678)
NET LOSS BEFORE INCOME TAXES		(6,680,742)	(42,502,634)
INCOME TAXES			
Deferred income tax recovery	18	-	227,719
NET LOSS		(6,680,742)	(42,274,915)
OTHER COMPREHENSIVE LOSS			
Unrealized foreign exchange loss on Translation of foreign operations		190,436	(332,866)
COMPREHENSIVE LOSS		\$ (6,490,306)	\$ (42,607,781)
LOSS PER SHARE – BASIC AND DILUTED			
	21	\$ (0.04)	\$ (0.34)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – BASIC AND DILUTED			
		189,342,039	124,897,942

The accompanying notes are integral to these consolidated financial statements.

IONIC BRANDS CORP.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Expressed in United States Dollars)

	Common Shares			Reserves	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
	Number of Shares	Amount					
Balance at December 31, 2019	161,749,791	\$ 40,909,598	\$	7,415,636	\$ (332,866)	\$ (57,110,422)	\$ (9,118,054)
Shares issued for:							
Settlement of debt	1,369,598	16,974		-	-	-	16,974
Services rendered	2,195,000	27,203		-	-	-	27,203
Conversion of convertible debentures	28,856,762	930,020		(146,919)	-	-	783,101
Issuance of stock options	-	-		32,059	-	-	32,059
Extinguishment of convertible debentures	-	-		(3,472,847)	-	-	(3,472,847)
Reissuance of convertible debentures	-	-		2,822,971	-	-	2,822,971
Reissuance of convertible debenture warrants	-	-		11,539	-	-	11,539
Currency translation adjustments	-	-		-	190,436	-	190,436
Net loss for the period	-	-		-	-	(6,680,742)	(6,680,742)
Balance at December 31, 2020	194,171,151	\$ 41,883,795	\$	6,662,439	\$ (142,430)	\$ (63,791,164)	\$ (15,387,360)

The accompanying notes are integral to these consolidated financial statements.

IONIC BRANDS CORP.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Expressed in United States Dollars)

	Common Shares			Reserves	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
	Number of Shares	Amount					
Balance at December 31, 2018	54,251,241	\$ 1,465,157	\$ -	\$ -	\$ (14,835,507)	(13,370,350)	
Shares issued for:							
Conversion of convertible debentures	32,363,816	16,652,251	-	-	-	16,652,251	
Settlement of debt	1,877,218	517,038	-	-	-	517,038	
Conversion of subscription receipts	14,280,146	5,324,042	103,566	-	-	5,427,608	
Finders' fee shares	7,403,924	2,409,697	32,837	-	-	2,442,534	
Exercise of warrants	7,862,400	3,415,197	(2,218,638)	-	-	1,196,559	
Patent acquisition	1,154,746	488,174	-	-	-	488,174	
Vegas Valley Growers acquisition	32,509,156	8,648,673	-	-	-	8,648,673	
Natural Extractions acquisition	9,635,150	2,609,505	1,036,409	-	-	3,645,914	
Recapitalization of Zara	331,995	123,777	-	-	-	123,777	
Issuance of financing fee warrants	-	-	755,009	-	-	755,009	
Issuance of performance warrants	-	-	2,026,615	-	-	2,026,615	
Issuance of convertible debentures	-	-	3,810,273	-	-	3,810,273	
Conversion of new convertible debentures	79,999	47,393	(12,201)	-	-	35,192	
Issuance of stock options	-	-	1,881,766	-	-	1,881,766	
Share issuance costs	-	(791,306)	-	-	-	(791,306)	
Currency translation adjustments	-	-	-	(332,866)	-	(332,866)	
Net loss for the year	-	-	-	-	(42,274,915)	(42,274,915)	
Balance at December 31, 2019	161,749,791	\$ 40,909,598	\$ 7,415,636	\$ (332,866)	\$ (57,110,422)	\$ (9,118,054)	

The accompanying notes are integral to these consolidated financial statements.

IONIC BRANDS CORP. (FORMERLY ZARA RESOURCES INC.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Expressed in United States Dollars)

	December 31, 2020	December 31, 2019
Cash Flows Provided By (Used In) Operating Activities		
Net loss for the year before tax	\$ (6,680,742)	\$ (42,502,634)
Adjustments for items not affecting cash:		
Accretion	1,136,772	1,077,758
Bad debt/(recovery)	1,293,026	4,079,014
Depreciation and amortization	1,247,235	702,939
Financing fees	-	514,201
Government grant	(84,241)	-
(Gain)/loss on disposal of property and equipment	17,641	63,286
Interest and finance charges	1,719,097	539,047
Impairment of goodwill and licenses	-	4,243,307
Listing expenses	-	4,626,778
Loss on acquisitions	-	9,376,945
(Gain) Loss on settlement of debts	(477,161)	(225,521)
(Gain) Loss on valuation of convertible debentures	547,984	4,728,285
Share-based payments	42,727	2,194,468
Shares issued for services rendered	-	375,902
	(1,237,662)	(10,206,225)
Changes in non-cash working capital:		
Trade and other receivables	(226,304)	(3,065,684)
Accounts payables and accrued liabilities	671,281	809,390
Prepaid expenses and deposits	138,792	464,116
Inventory	84,109	(63,898)
Due from related parties	(303,123)	(248,853)
	(872,907)	(12,311,154)
Cash Flows Used in Investing Activities		
Purchase of property and equipment	(213,256)	(380,611)
Purchase of intangible assets	(300,000)	(357,258)
Cash used in business acquisitions, net of cash acquired	-	(846,826)
	(513,256)	(1,584,695)
Cash Flows From Financing Activities		
Proceeds from convertible debentures, net	196,356	13,653,063
Proceeds from loans payable	1,464,562	6,997,316
Share issuance costs	-	(111,860)
Exercise of warrants	-	1,153,475
Principal elements of lease payments	(449,406)	(451,328)
Repayment of loans payable	(237,782)	(6,813,240)
Proceeds from vehicle loans	34,997	68,499
Repayment of vehicle loans	(25,399)	(38,554)
	983,328	14,457,371
Effect of exchange rate changes on cash	(13,679)	43,603
Changes in cash during the year	(402,835)	561,522
Cash, beginning of year	704,897	99,772
Cash, end of year	\$ 288,383	\$ 704,897

The accompanying notes are integral to these financial statements.

IONIC BRANDS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019
(Expressed in United States Dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

Ionic Brands Corp. (“Ionic” or the “Company”) was incorporated on October 9, 2012 in the province of Ontario. On July 3, 2013, the Company received its Certificate and Continuation and is now a company governed under the British Columbia Corporation Act. The Company is a public company whose common shares are listed for trading on the Canadian Securities Exchange (“CSE”) under the symbol “IONC”. The registered and records office of the Company is 1055 West Georgia Street, Suite 1500, Vancouver, British Columbia. The head office of the Company is located at 1142 Broadway, Suite 310, Tacoma, Washington, USA.

Description of Business

The Company’s primary business is the provision of services and products ancillary to the cannabis production and processing industry in the States of Washington and Oregon. The Company is currently not directly engaged in the manufacture, importation, possession, use, sale or distribution of cannabis, but it has entered into irrevocable purchase option agreements to acquire such businesses when the state of Washington legislation changes to permit cannabis operating licenses to be owned by non-residents. The Company intends to exercise its irrevocable purchase option agreements once the residency restriction is lifted, which will result in the Company providing direct services to the Cannabis industry.

The Company, through its operating subsidiaries, 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.

Reverse Takeover

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

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

The Company’s results of operations are included from the closing date, March 22, 2019 and onwards (note 3).

COVID-19

On March 11, 2020 the World Health Organization characterized the outbreak of a strain of the novel coronavirus (“COVID-19”) as a pandemic which has resulted in a series of public health and emergency measures that have been put in place to combat the spread of the virus. The duration and impact of COVID-19 is unknown at this time and it is not possible to reliably estimate the impact that the length and severity of these developments will have on the financial results and condition of the Company in future periods, including the possible impact on future financing opportunities.

IONIC BRANDS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019
(Expressed in United States Dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS (Cont'd)

Going Concern

These consolidated financial statements have been prepared with the going concern assumption, which assumes that the Company will continue in operation for the foreseeable future and, accordingly, will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company incurred a net loss of \$6,680,742, has working capital deficit of \$4,748,670 and an accumulated deficit of \$63,791,164. The Company will require further financing to operate and further develop its business. The Company's ability to realize its assets and discharge its liabilities is dependent upon the Company obtaining the necessary financing and ultimately upon its ability to achieve profitable operations. These material uncertainties may cast significant doubt on the Company's ability to continue as a going concern. Failure to arrange adequate financing on acceptable terms and/or achieve profitability may have an adverse effect on the financial position, results of operations, cash flows and prospects of the Company. These consolidated financial statements do not give effect to adjustments to assets or liabilities that would be necessary should the Company be unable to continue as a going-concern. These adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

Statement of Compliance

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

These consolidated financial statements were authorized for issue by the Board of Directors on June 22, 2021.

Basis of Preparation

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

Functional and Presentation Currency

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

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

IONIC BRANDS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019
(Expressed in United States Dollars)

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

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

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

Basis of Consolidation

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

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

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

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

Significant Estimates and Assumptions

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

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

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

Estimated Useful Lives and Depreciation of Property and Equipment

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

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

Impairment

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

Allowance for Doubtful Accounts and the Recoverability of Receivables

Significant estimates are involved in the determination of recoverability of receivable and no assurance can be given that actual proceeds will not differ significantly from current estimations. Management has made significant assumptions about the recoverability of receivables. During the year ended December 31, 2020, the Company recorded a bad debt expense of \$1,293,026 (2019 – \$4,079,014).

Contingencies

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

Income Taxes

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

Significant Judgments

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

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

Loss Per Share

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

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

Financial Instruments

Recognition

The Company recognizes a financial asset and financial liability when it becomes party to the contractual provisions of the financial instrument, except for trade receivables which are initially recognized when they are originated. Financial assets are initially measured at fair value and are derecognized either when the Company has transferred substantially all the risks and rewards of ownership of the financial asset, or when cash flows expire. Financial liabilities are initially measured at fair value and are derecognized when the obligation specified in the contract is discharged, cancelled or expired.

Classification and Measurement

The Company determines the classification of its financial instruments at initial recognition. Financial assets and financial liabilities are classified according to the measurement categories:

- those to be measured subsequently at FVTPL,
- those to be measured subsequently at FVOCI, and
- those to be measured subsequently at amortized cost.

The classification and measurement of financial assets after initial recognition at fair value depends on the business model for managing the financial asset and the contractual terms of the cash flows. Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are generally measured at amortized cost at each subsequent reporting period. All other financial assets are measured at their fair values at each subsequent reporting period, with any changes recorded through profit or loss or through other comprehensive income (when a designation is made as an irrevocable election at the time of recognition).

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

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

Transaction costs that are directly attributable to the acquisition or issuance of a financial asset or financial liability are classified as and then subsequently measured at amortized cost or at FVOCI and are included in the fair value of the instrument on initial recognition. Transaction costs for financial assets and financial liabilities classified at FVTPL are expensed in profit or loss.

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

Impairment of Financial Assets

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

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

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

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

Income Taxes

Current Income Tax

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

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

Deferred Income Tax

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

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

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

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

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

Business Combinations

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

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

Right-of-Use Assets and Lease Liability

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

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

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

Property and Equipment

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

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

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

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

Property and Equipment (Cont'd)

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

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

Patents, Trademarks and Brand

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

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

Inventory

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

Foreign Currency Translation

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

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

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

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

Share-Based Payments

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

Reserves

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

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

Revenue

The Company uses the following five-step contract-based analysis of transactions to determine if, when and how much revenue can be recognized:

- (i) identify the contract with the customer;
- (ii) identify the performance obligation(s) in the contract;
- (iii) determine the transaction price;
- (iv) allocate the transaction price to the performance obligation(s); and
- (v) recognize revenue when (or as) performance obligation(s) are satisfied.

Revenue from management services and royalty fees is recognized over the term of the contract as services are provided as follows: (i) identify the services to be provided as stipulated in the contract with the customer; (ii) quantify on a monthly basis the performance obligation(s) in the contract; (iii) recognize revenue on a monthly basis for the performance obligation(s) that were satisfied.

Revenue from the sale of products is recognized at the point in time when control over the goods has been transferred to the customer. The Company transfers control and satisfies its performance obligation when delivery and acceptance by the customer.

Rental income from operating leases is recognized on a straight-line basis over the term of the arrangement. Revenue is presented net of discounts and sales and other related taxes.

Cost of Goods and Services Sold

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

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

Convertible Debentures

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

3. REVERSE ACQUISITION

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

Pursuant to the Share Exchange Agreement:

- The Company consolidated its issued and outstanding capital at a ratio that resulted in 331,995 Zara shares outstanding. The Zara shares issued in connection with the Transaction were issued on a post-consolidation basis.
- The Company and Blacklist completed a "three-cornered" amalgamation (the "Amalgamation") whereby a wholly-owned subsidiary of Zara, 1185669 BC Ltd ("Zara Subco") amalgamated with a wholly-owned subsidiary of Blacklist, Blacklist Finco Inc. ("Blacklist Finco"). Upon completion of the Amalgamation, one common share of Blacklist Finco was exchanged for one Zara share, with an aggregate of 14,280,146 Zara shares being issued. Each common share of Blacklist Finco exchanged under the Amalgamation was issued upon the conversion of subscription receipts of Blacklist Finco pursuant to their terms in the private placement completed in tranches on November 26, 2018 and December 4, 2018.
- The Company issued on closing 5,250,000 Zara shares to certain finders at a deemed price of \$0.50 per Zara share as finders' fees valued at \$1,957,374
- The Company also issued 6,000,000 warrants to consultants valued at \$2,026,615
- At the closing of the Transaction, the shareholders of Blacklist held 50% of Zara. Accordingly, Blacklist is considered to have acquired Zara with the transaction being accounted for as a reverse takeover of Zara by Blacklist shareholders.

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

As a result of this asset acquisition, a listing expense of \$4,626,778 has been recorded. This reflects the difference between the estimated fair value of Blacklist shares deemed to have been issued to the Company's shareholders less the fair value of the assets of the Company's acquired.

IONIC BRANDS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019
(Expressed in United States Dollars)

3. REVERSE ACQUISITION (Cont'd)

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

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

4. ACQUISITION OF SUBSIDIARIES

Blacklist Brands CA Inc.

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

This acquisition constitutes an asset acquisition as Blacklist California did not meet the definition of a business, as defined in IFRS 3, Business Combinations.

The allocation of consideration transferred is summarized as follows:

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

Blacklist Holdings OR Inc.

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

This acquisition constitutes an asset acquisition as Blacklist Oregon did not meet the definition of a business, as defined in IFRS 3, Business Combinations.

The allocation of consideration transferred is summarized as follows:

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

IONIC BRANDS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019
(Expressed in United States Dollars)

4. ACQUISITION OF SUBSIDIARIES (Cont'd)

Natural Extractions, Inc.

On April 1, 2019, Blacklist signed a management agreement with Natural Extractions, Inc. ("NE"), a company incorporated in the state of Washington, whereby Blacklist provides management services to NE and retains 100% gross revenues less payments due related to NE's operations. At the same time, Blacklist also entered into a letter of intent with NE shareholders whereby Blacklist shall acquire NE's assets and operations for a consideration consisting of a cash payment of \$855,000 and issuance of 6,228,201 common shares, as well as issuance of 3,114,998 share purchase warrants with an exercise price of CAD\$1.33 per share, exercisable over 3 years. The acquisition was for the Company to expand its brands, enter into the edible markets and retain penetration within the state of Washington.

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

This management agreement resulted in giving Blacklist control over NE as defined in IFRS 10, and management concluded that NE is to be consolidated into the Company as at April 1, 2019. The Company acquired 100% of the outstanding shares of NE.

The allocation of consideration transferred is summarized as follows:

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

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

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

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

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

IONIC BRANDS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019
(Expressed in United States Dollars)

4. ACQUISITION OF SUBSIDIARIES (Cont'd)

Vegas Valley Growers North, LLC

In November 2018, Blacklist entered an agreement with Vegas Valley Growers North, LLC ("VVG") to acquire all of VVG's assets for consideration consisting of \$7,000,000 in cash and \$1,000,000 in common shares. In April 2019, the Company executed a definitive agreement to acquire from VVG's members 100% of the Membership interests of VVG by paying to the Members of VVG \$7,620,000 in cash and issuing 2,814,180 common shares at CAD\$0.5952 for a total consideration of \$8,870,000 (see Note 15). The definitive agreement included certain conditions to closing that were not fulfilled.

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

On May 6, 2019, Blacklist signed an agreement to acquire 100% outstanding shares of VVC (see Note 15) whereby Ionic is liable for all tax and other liabilities of VVG effective March 1, 2019. The Company issued 32,171,454 common shares to the owners of VVC at a fair value of \$8,532,586, and 2,814,180 common shares to the shareholders of VVG at a fair value of \$967,393.

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

5. TRADE AND OTHER RECEIVABLES

	December 31, 2020		December 31, 2019	
Trade receivables	\$	4,165,258	\$	3,701,666
GST and other receivables		45,963		1,691,178
Provision for doubtful accounts		(2,926,287)		(2,140,333)
	\$	1,284,934	\$	3,252,511

During the year ended December 31, 2020, the Company recorded a provision for doubtful accounts of \$1,293,026 (December 31, 2019 - \$1,137,414).

Prior to the COVID-19 outbreak, the Company applies IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The expected loss rates are based on the payment profiles of sales over a period of 12 months before December 31, 2020 or December 31, 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect the current forward-looking information on economic factors affecting the ability of customers to settle receivables.

Since the COVID-19 outbreak, the Company applies a direct customer analysis approach to measure expected credit losses as the Company determines how COVID-19 impacts its customers. The Company assesses the collectability of receivables of each customer on an individual basis using quantitative and qualitative information available to management. The historical loss rates are adjusted to reflect the current and forward-looking information on economic factors affecting the ability of the customers to make regular monthly payments on the receivables.

IONIC BRANDS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019
(Expressed in United States Dollars)

5. TRADE AND OTHER RECEIVABLES (Cont'd)

Trade receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include business closure and/or the failure to make monthly contractual payments.

6. PREPAID EXPENSES AND DEPOSITS

	December 31, 2020		December 31, 2019	
Prepaid expenses	\$	49,508	\$	199,154
Deposits		62,191		51,337
	\$	111,699	\$	250,491

7. INVENTORY

	December 31, 2020		December 31, 2019	
Raw materials	\$	10,958	\$	1,009
Work in progress		6,527		8,656
Finished goods		123,057		214,986
	\$	140,542	\$	224,651

During the year ended December 31, 2020, total cost of inventory sold was \$2,076,735 (2019 - \$3,582,528); the Company also recorded \$nil (2019 - \$1,260,110) due to inventory obsolescence in reorganization expense.

8. PROPERTY AND EQUIPMENT

	Motor Vehicles (\$)	Computer Equipment (\$)	Furniture and Fixtures (\$)	Leasehold Improvements (\$)	Lab Equipment (\$)	Total (\$)
Cost:						
At December 31, 2018	182,676	41,677	49,069	137,506	295,531	706,459
Acquisition	-	12,096	11,996	3,497	161,373	188,962
Additions	68,499	115,439	71,255	11,610	112,798	379,601
Disposal	(57,057)	(357)	(1,491)	(1,713)	(54,417)	(115,035)
At December 31, 2019	194,118	168,855	130,829	150,900	515,285	1,159,987
Additions	37,278	175,978	-	-	200,000	413,256
Disposal	-	(11,590)	(12,451)	(150,900)	(28,813)	(203,754)
At December 31, 2020	231,396	333,243	118,378	-	686,472	1,369,489
Amortization:						
At December 31, 2018	59,419	20,542	10,279	109,054	126,054	325,348
Charge for the year	36,497	40,418	13,502	28,036	111,462	229,915
Eliminated on disposal	(29,715)	-	-	-	-	(29,715)
At December 31, 2019	66,201	60,960	23,781	137,090	237,516	525,548
Charge for the year	40,323	63,372	16,911	7,584	119,776	247,966
Eliminated on disposal	-	(12,167)	(2,521)	(144,674)	(26,750)	(186,113)
At December 31, 2020	106,524	112,165	38,171	-	330,542	587,403
Net Book Value:						
At December 31, 2019	127,917	107,895	107,047	13,810	277,769	634,437
At December 31, 2020	124,872	221,078	80,207	-	355,930	782,086

During the year ended December 31, 2020, Blacklist disposed of property and equipment for proceeds of \$nil (2019 -\$35,470), resulting in a loss on disposition of assets of \$17,641 (2019 -\$63,286).

IONIC BRANDS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019
(Expressed in United States Dollars)

9. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Right-of-Use Assets

During the year, the Company modified the terms of the existing leases on both equipment and premises, resulting in an increase to both right-of-use assets and right-of-use liabilities in the amount of \$212,978. As a result of the lease modifications, the Company recognized a gain on debt forgiveness in the statement OF loss and comprehensive loss in the amount of \$83,913 for the year ended December 31, 2020 (2019 - \$nil).

	ROU Asset Building	ROU Asset Equipment	Total
Cost:			
Balance at January 1, 2019, on adoption of IFRS 16	\$ 371,188	\$ -	\$ 371,188
Additions	25,928	791,644	817,572
Balance at December 31, 2019	397,116	791,644	1,188,760
Modification	-	212,978	212,978
Balance at December 31, 2020	\$ 397,116	\$ 1,004,622	\$ 1,401,738
Accumulated amortization:			
Balance at January 1, 2019, on adoption of IFRS 16		-	-
Depreciation	\$ (124,779)	\$ (105,553)	\$ (230,332)
Balance at December 31, 2019	(124,779)	(105,553)	(230,332)
Depreciation	(124,780)	(294,244)	(419,024)
Balance at December 31, 2020	\$ (249,559)	\$ (399,797)	\$ (649,356)
Net book value:			
Balance at December 31, 2019	\$ 272,337	\$ 686,091	\$ 958,428
Balance at December 31, 2020	\$ 147,557	\$ 604,824	\$ 752,382

Lease Liabilities

The lease liabilities are calculated using an incremental borrowing rate of 10% per annum.

	(\$)
Balance at January 1, 2019, on adoption of IFRS 16	371,188
Additions	667,572
Interest expense	132,801
Lease payments	(451,328)
At December 31, 2019	720,233
Modification	212,978
Interest expense	91,700
Lease payments	(449,406)
At December 31, 2020	575,505
Current portion	381,600
Non-current portion	193,905

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

	December 31, 2020
Not later than one year	\$ 413,803
Later than one year and not later than five years	198,998
Total minimum lease payments	612,801
Less: amounts representing finance costs	37,296
Present value of minimum lease payments	\$ 575,505

IONIC BRANDS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019
(Expressed in United States Dollars)

10. PATENTS, TRADEMARKS AND GOODWILL

	Patents (\$)	Brand (1) (\$)	Db3 Option (\$)	Goodwill (1) (\$)	Total (\$)
Cost:					
At December 31, 2018	-	-	-	-	-
Additions	845,432	890,000	760,033	3,483,274	5,978,739
Impairment	-	-	(760,033)	(3,483,274)	(4,243,307)
At December 31, 2019	845,432	890,000	-	-	1,735,432
Additions	-	1,202,000	-	-	1,202,000
At December 31, 2020	845,432	2,092,000	-	-	2,937,432
Amortization:					
At December 31, 2017 and 2018	-	-	-	-	-
Charge for the year	32,381	222,703	-	-	255,084
At December 31, 2019	32,381	222,703	-	-	255,084
Charge for the year	50,510	529,587	-	-	580,097
At December 31, 2020	82,891	752,290	-	-	835,181
Net Book Value:					
At December 31, 2019	813,051	667,297	-	-	1,480,348
At December 31, 2020	762,541	1,339,710	-	-	2,102,251

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

During the year ended December 31, 2020, the Company acquired three brands for total consideration of \$1,202,000.

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

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

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2020		December 31, 2019	
Trade payables	\$	1,958,137	\$	1,912,971
Accrued expenses		2,034,060		766,325
	\$	3,992,197	\$	2,679,296

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

IONIC BRANDS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019
(Expressed in United States Dollars)

12. LOANS PAYABLE

During the year ended December 31, 2015, Blacklist issued a promissory note to a company related to a director of Blacklist for the amount of \$9,274. The promissory note was interest bearing at 10.5% per annum, unsecured and due on demand. During the year ended December 31, 2019, Blacklist borrowed a further \$322,996 from the lender and settled the loan and accrued interest for \$601,902. During the year ended December 31, 2020, the Company recorded interest expense of \$nil (December 31, 2019 - \$10,852).

On December 31, 2017, Blacklist entered into a revised promissory note agreement with the former director for the amount of \$298,712 for the balance outstanding from expenses paid by the director and repayment issued by Blacklist during the year ended December 31, 2017. The revised note is interest bearing at 10.5% per annum, unsecured and was extended to December 31, 2019. During the year ended December 31, 2019, Blacklist borrowed a further \$742,743 from the lender, who resigned from his position in October 2019, and settled the loan and accrued interest for \$985,393. During the year ended December 31, 2020, the Company recorded interest expense of \$nil (December 31, 2019 - \$36,281).

In December 2018, Blacklist entered into a business loan agreement for the amount of \$162,000. The note was non-interest bearing, due and payable upon the completion of Blacklist's next financing. As at December 31, 2020 and 2019, the balance outstanding was \$nil as the loan was repaid from the proceeds of the convertible debentures issued in May 2019.

In December 2018, Blacklist entered into a business loan agreement for the amount of \$124,690. The note was non-interest bearing, due and payable upon the completion of Blacklist's next financing. As at December 31, 2020 and 2019, the balance outstanding was \$nil as the loan was repaid from the proceeds of the convertible debentures issued in May 2019.

On January 30, 2019, Blacklist entered into a bridge loan agreement (the "Bridge Loan") whereby Blacklist received a loan of \$2,463,614 (CAD\$3,250,000). The Bridge Loan matured on May 15, 2019 with no interest. The Company used all Blacklist assets as collateral to secure the loan. In addition, the Company paid a financing fee of \$200,850 (CAD \$260,000), an extension fee of \$20,085 (CAD\$26,000) and issued 2,600,000 share purchase warrants to the lender. As at December 31, 2020 and 2019, the balance outstanding including accrued interest was \$nil as the loan was repaid from the proceeds of the convertible debentures issued in May 2019.

On February 28, 2019, Blacklist entered into another bridge loan agreement (the "Bridge Loan") whereby Blacklist received a loan of \$1,898,398 (CAD\$2,500,000). The bridge loan matures one year from the closing date and carries an interest rate of 17% per annum, compounded monthly, payable in arrears. The Bridge loan has a minimum interest payment of \$115,385 (CAD\$150,000) should the principal be repaid prior to the maturity date. In connection with the Bridge Loan, a financing fee of \$70,770 (CAD\$92,000) was paid and 2,000,000 share purchase warrants were issued (see Note 15). As at December 31, 2020, the balance outstanding was \$nil (2019 - \$nil) and an interest expense of \$nil was recorded for the year ended December 31, 2020 (2019 - \$75,731).

In May 2019, the Company entered into a loan agreement of \$29,704 (CAD\$40,000). The loan was non-interest bearing and due one year from the borrowing date. As at December 31, 2020 and 2019, the balance outstanding was \$nil as the Company repaid the loan from the proceeds of the convertible debentures issued in May 2019.

IONIC BRANDS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019
(Expressed in United States Dollars)

12. LOANS PAYABLE (Cont'd)

On April 1, 2019, Blacklist assumed loans from the acquisition of Natural Extractions, Inc. ("NE"). The loans are past due and are in default of the original terms, resulting in an interest rate of 12%. As at December 31, 2020, the balance outstanding including accrued interest was \$373,022 (2019 - \$569,706). See Note 21.

In May 2019, the Company entered into a loan agreement of \$37,131 (CAD\$50,000). The loan was non-interest bearing and due one year from the borrowing date. As at December 31, 2020 and 2019, the balance outstanding was \$nil as the Company repaid the loan from the proceeds of the convertible debentures issued in May 2019.

In May 2019, the Company entered into a loan agreement of \$37,084 (CAD\$50,000). The loan was non-interest bearing and due one year from the borrowing date. As at December 31, 2020 and 2019, the balance outstanding was \$nil as the Company repaid the loan from the proceeds of the convertible debentures issued in May 2019.

In November 2019, the Company entered into a Memorandum of Understanding ("MOU") with a device manufacturer. The device manufacturer advanced the Company \$500,000 to purchase their products and the loan plus a fee of \$75,000 was initially to be repaid no later than November 20, 2020. The device manufacturer has failed to deliver their products and accordingly, the repayment of the loan has been deferred until the device manufacturer fulfils their obligation. As at December 31, 2020, the outstanding balance was \$500,000 (December 31, 2019 - \$500,000).

In November 2019, the Company entered into a promissory note of \$400,000. The loan carries an interest rate of 12% per annum and due on November 22, 2020. The due date for the promissory note has been extended to May 22, 2021. The promissory note is also secured by all or substantially all of the Company's assets. As at December 31, 2020, the balance outstanding was \$433,456 (December 31, 2019 - \$414,530).

On April 10, 2020, the Company received loan proceeds in the amount of \$239,300 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable, based on eligibility requirements that are currently under revision by the US Small Business Administration ("SBA"). The Company has recorded a loan of \$155,059 and income from Government Grant of \$84,241.

In June 2020, the Company assumed a note payable with a term of 34 months in the amount of \$195,000 from the acquisition of Dabulous brand and equipment from WW Agriculture Inc. (see Note 10). The note bears interest at 12% per annum. During the year ended December 31, 2020, the Company repaid \$34,435 towards the loan. As at December 31, 2020, the outstanding balance was \$160,565.

During the year ended December 31, 2020, the Company borrowed 3 loans totaling \$625,000 from an unrelated party with a fee of \$18,750. The loans are to be repaid over 32 weeks with payments determined based on net sales of the Company. Collectively, the loans have effective annual interest rates between 72.2% and 91.3%. As at December 31, 2020, the Company has repaid \$140,343 towards the loan and the balance outstanding was \$484,657. Subsequent to December 31, 2020, the Company made a lump sum payment of \$250,000 against the outstanding balance.

In July 2020, the Company borrowed \$200,000. The bridge loan bears interest at 10% per annum and was due in March 2021. As at December 31, 2020 the Company accrued interest of \$11,573 and the balance outstanding was \$211,573. Subsequent to December 31, 2020, the holder of the bridge loan converted the balance outstanding into 1,072,242 units, with each unit consisting of one common share and one share purchase warrant of the Company. See Note 21.

IONIC BRANDS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019
(Expressed in United States Dollars)

12. LOANS PAYABLE (Cont'd)

On December 8, 2020, the Company borrowed \$150,000. The bridge loan was non-interest bearing and the loan balance plus a fee of \$10,000 must be repaid on January 23, 2021. Subsequent to December 31, 2020, this bridge loan was fully repaid with proceeds from the Company's March 2, 2021 private placement. See Note 21.

On December 31, 2020, the Company borrowed 4 loans totalling \$255,906 (CAD \$325,000) from unrelated parties. The loan bears interest of 12% per annum and is payable on January 31, 2021. In connection with the 4 loans, 150,000 share purchase warrants were issued (Note 15). Subsequent to December 31, 2020, this bridge loan was fully repaid with proceeds from the Company's March 2, 2021 private placement. See Note 21.

Continuity schedule of loans payable at December 31, 2020 and 2019 is as follows:

	December 31, 2020		December 31, 2019	
Balance, beginning	\$	1,484,236	\$	761,113
Issued		1,664,562		6,997,316
Interest expense		165,249		539,047
Repayment of loans payable		(216,396)		(6,813,240)
Government grant		(67,787)		-
Debt forgiveness		(214,839)		-
Balance, ending	\$	2,815,025	\$	1,484,236

13. RELATED PARTY TRANSACTIONS

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

	December 31, 2020		December 31, 2019	
Salaries and wages	\$	412,463	\$	1,414,783
Professional fees		232,225		222,094
Rent		-		39,000
	\$	644,688	\$	1,675,877

Accounts Payable and Accrued Liabilities

As at December 31, 2020, the following amounts in accounts payable were due to related parties:

- \$56,975 (December 31, 2019 - \$nil) owing to an officer for services rendered
- \$20,000 (December 31, 2019 - \$33,377) owing to a director for services rendered;
- \$174,225 (December 31, 2019 - \$142,225) owing to officers for deferred compensation.

Loans Payable

As at December 31, 2020, \$nil (December 31, 2019 - \$nil) in loans payable were owed to related parties (Note 12). During the year ended December 31, 2020, the Company recorded interest expense of \$nil (December 31, 2019 - \$63,427) paid to related parties.

Accounts Receivable

As at December 31, 2020, \$2,128,976 (December 31, 2019 - \$2,926,414) in accounts receivable were due from a company jointly owned by the Company's CEO and former CFO. The ability of this company to repay the full amount owing is uncertain, and accordingly, the Company has recorded a provision for doubtful accounts in the amount of \$1,272,591, (December 31, 2019 - \$1,137,414) resulting in a net accounts receivable from a related party of \$856,385 (December 31, 2019 - \$1,789,000).

IONIC BRANDS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019
(Expressed in United States Dollars)

13. RELATED PARTY TRANSACTIONS (Cont'd)

Due from Related Parties

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

During the year ended December 31, 2020, the Company loaned \$619,688 to a company owned by the Company's CEO. The loan carries interest at 3% per annum and is due on or before January 1, 2023. As at December 31, 2020, the balance outstanding was \$619,688.

During the year ended December 31, 2019, the Company loaned \$2,485,283 to a company owned by the Company's CEO. The loan carries interest at 3% per annum and is due on or before January 1, 2022. As at December 31, 2019, the balance outstanding was \$316,564 as the loan was impaired due to the uncertainty of the companies' ability to repay the entire balance. During the year ended December 31, 2020, the loan in the amount of \$316,564 was fully repaid.

Transactions with Related Parties

During the year ended December 31, 2020, the Company had product and service sales to a company jointly owned by the Company's CEO and former CFO of \$8,388,837 (December 31, 2019 - \$8,068,695).

On October 1, 2017, Blacklist entered into a commercial lease agreement with a company controlled by a former director for its former head office. Under the agreement, Blacklist is required to make lease payments for a term of 3 years. As at January 1, 2019, the Company adopted IFRS 16, and recognized both an ROU asset and a lease liability for this contract (see Note 9). During the year ended December 31, 2019, the Company paid off the lease liability.

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

During the year ended December 31, 2020, the Company recognized equipment rental income of \$921,004 earned from a company controlled by the Company's CEO and former CFO (December 31, 2019 - \$747,330).

On January 1, 2017, Blacklist entered into an agreement with a company jointly controlled by the Company's CEO and former CFO (the "Licensee"). Under the agreement, Blacklist granted the Licensee a non-exclusive, non-transferable, non-assignable license to reproduce, distribute, publicly display and publicly use the IONIC trademark. At granted commencement, the Licensee was to pay licensing fees of 5% of its gross revenue for 3 years. On January 1, 2018, the license fee was increased to 10% of gross revenue. Of the total royalty and service income recognized during the year ended December 31, 2020, \$841,729 was earned from a related party (December 31, 2019 - \$363,133).

During the year ended December 31, 2020, the Company earned \$416,319 (December 31, 2019 - \$395,300) in procurement fees from a company jointly controlled by the Company's CEO and former CFO.

During the year ended December 31, 2020, the Company incurred total expenses of \$30,162 on behalf of an entity controlled by the Company's President. (December 31, 2019 - \$222,548). The ability of this company to repay the amount owing is uncertain and therefore has been fully impaired at December 31, 2020 and 2019.

IONIC BRANDS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019
(Expressed in United States Dollars)

14. CONVERTIBLE DEBENTURES

On July 6, 2018, Blacklist entered into convertible secured debenture agreements (individually, the "Convertible Debenture") for \$577,459 (CAD\$735,000). The Convertible Debenture bore interest at 0% per annum, provided, however, that if the Transaction was terminated in accordance with its terms, Blacklist shall pay interest at the rate of 9% per annum from the date that is the three-month anniversary of the date of termination of the Transaction. The interest shall accrue and shall be payable on the earlier of the maturity date or upon conversion of the Convertible Debenture. The Convertible Debenture is due on October 18, 2020, provided if the Transaction was duly terminated pursuant to its terms, then October 18, 2019. On March 22, 2019, upon closing of the Transaction, the principal amount of this Convertible Debenture was converted to 21,000,000 common shares at CAD\$0.035 per share. Prior to debentures being converted, the conversion feature of the debentures was revalued to be \$10,257,104 and was recorded as equity of the Company.

On October 2, 2018, Blacklist entered into convertible secured debenture agreements (individually, the "Convertible Debenture") for \$942,790 (CAD\$1,200,000). The Convertible Debenture bore interest at 0% per annum, provided, however that if the Transaction was terminated in accordance with its terms, Blacklist shall pay interest at the rate of 9% per annum from the date that is the three-month anniversary of the date of termination of the Transaction. The interest shall accrue and shall be payable on the earlier of the maturity date or upon conversion of the Convertible Debenture. The Convertible Debenture is due on October 18, 2020, provided however, that if the Transaction was duly terminated pursuant to its terms, then October 18, 2019. On March 22, 2019, upon closing of the Transaction, the principal amount of this Convertible Debenture was converted to 4,800,000 common shares at CAD\$0.25 per share. Prior to debentures being converted, the conversion feature of the debentures was revalued to be \$1,574,918 and was recorded as equity of the Company.

On October 10, 2018, Blacklist entered into convertible secured debenture agreements (individually, the "Convertible Debenture") for \$982,073 (CAD\$1,250,000). The Convertible Debenture bore interest at 0% per annum, provided, however that if the Transaction was terminated in accordance with its terms, Blacklist shall pay interest at the rate of 9% per annum from the date that is the three-month anniversary of the date of termination of the Transaction. The interest shall accrue and shall be payable on the earlier of the maturity date or upon conversion of the Convertible Debenture. The Convertible Debenture is due on November 26, 2020, provided however, that if the Transaction was duly terminated pursuant to its terms, then November 26, 2019. On March 22, 2019, upon closing of the Transaction, the principal amount of this Convertible Debenture was converted to 3,125,000 common shares at CAD\$0.40 per share. Prior to debentures being converted, the conversion feature of the debentures was revalued to be \$675,791 and was recorded as equity of the Company.

On November 26, 2018, Blacklist entered into convertible secured debenture agreements (individually, the "Convertible Debenture") for \$1,350,869 (CAD\$1,719,408). The Convertible Debenture bore interest at 0% per annum, provided, however that if the Transaction was terminated in accordance with its terms, Blacklist shall pay interest at the rate of 9% per annum from the date that is the three-month anniversary at the date of termination of the Transaction. The interest shall accrue and shall be payable on the earlier of the maturity date or upon conversion of the Convertible Debenture. The Convertible Debenture is due on November 26, 2020, provided however, that if the Transaction was duly terminated pursuant to its terms, then November 26, 2019. On March 22, 2019, upon closing of the Transaction, the principal amount of this Convertible Debenture was converted to 3,438,816 common shares at CAD\$0.50 per share. Prior to debentures being converted, the conversion feature of the debentures was revalued to be \$487,222 and was recorded as equity of the Company.

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

IONIC BRANDS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019
(Expressed in United States Dollars)

14. CONVERTIBLE DEBENTURES (Cont'd)

Each Debenture Unit consists of:

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

The loan's embedded conversion feature was determined to meet the definition of a compound financial instrument required to assign a fair value to the debt with any residual amount recorded as equity. The conversion feature value has been determined to be \$3,810,273 (CAD\$5,366,060). The borrowing amount represents the debt element of the loan, without the conversion option, recorded at its amortized cost, using a discount rate of 20%.

In connection with the Debenture offering, the Company issued an aggregate of 1,059 compensation warrants ("Compensation Warrants"). The Company also issued 62 finders warrants ("Finders Warrants"). Each Compensation Warrant and Finders Warrant entitles the holder to purchase one Debenture Unit of the Company at an exercise price of CAD\$1,000 until May 16, 2022. In addition, the Company paid \$1,049,666 for associated legal fees, financing fees, commissions and finders fees from the proceeds of the convertible debentures. The Company also incurred transaction costs of \$184,984 (CAD\$245,434).

In February 2020, the Company amended the terms of the Debenture Units:

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

Due to the amendment to the terms of the Debenture Units, the Company is deemed to have extinguished the existing debentures and reissued new debentures with the new terms. The borrowing amount represents the debt element of the loan, without the conversion option, recorded at its amortized cost, using a discount rate of 20%. The Company valued the liability portion of the convertible debt to \$12,449,857 (CAD \$16,463,691). The value of the conversion feature is determined using the Black-Scholes Option Pricing Model with the assumptions of 122.99% volatility rate, discount rate of 1.45, expected life of 2.23 years and no dividends. The conversion feature of the new debentures is valued at \$2,822,971 (CAD\$3,733,097). As a result of the amendment, the Company has recorded a loss on extinguishment of debt of \$547,984 (CAD\$ 735,094).

On December 31, 2020, the Company entered into a convertible debenture agreement (individually, the "Convertible Debenture") for \$196,356 (CAD\$250,000). The Convertible Debenture bore interest at 12% per annum, and is payable on January 31, 2021. The holder is entitled to exchange the amount of principal plus accrued interest due at the date of conversion to the Company's common shares at a conversion price equal to the average of the open and close market price on the date of the conversion. The full amount of \$196,356 (CAD\$250,000) has been recorded as a current liability.

	December 31, 2020	December 31, 2019
Balance, beginning of year	\$ 11,973,871	\$ 12,119,940
Issue of convertible debentures, net	196,355	9,842,753
Change in fair value of convertible debentures (1)	-	4,728,285
Extinguishment of convertible debentures	(12,373,211)	-
Reissuance of convertible debentures	12,449,857	-
Conversion to common shares	(775,885)	(16,687,443)
Accretion and interest	2,552,584	1,786,446
Repayment of convertible debt	(31,570)	-
Foreign exchange	2,254	183,890
Balance, end of year	\$ 13,994,255	\$ 11,973,871

IONIC BRANDS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019
(Expressed in United States Dollars)

14. CONVERTIBLE DEBENTURES (Cont'd)

The fair value is calculated based on the November 26, 2018 arm's length financing which the shares would be converted at fair value at \$0.50 per share. Blacklist was a private company at the end of December 31, 2018, thus the November 2018 financing would be the most appropriate representation of Blacklist's shares' fair value. During the year ended December 31, 2019, the convertible option was valued using the share price of the Company.

15. SHARE CAPITAL

Authorized Share Capital of the Company

The Company's authorized share capital consists of:

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

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

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

Issued Share Capital

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

On March 22, 2019, prior to the completion of the Transaction, Zara consolidated its issued and outstanding share capital at a ratio of 1 new share for 35.9389 old shares. Prior to the completion of the Transaction, Zara had 331,995 post-consolidated common shares outstanding, and the Zara shares issued in connection with the Transaction were on post-consolidation basis.

On March 22, 2019, pursuant to the Share Exchange Agreement (see Note 3), 54,251,241 common shares were issued to Blacklist shareholders and 14,280,146 common shares were issued to Blacklist subscription receipts holders on completion of the RTO.

On March 22, 2019, pursuant to convertible secured debenture agreements (see Note 14), the Company issued an aggregate of 32,363,816 common shares to convertible debenture holders for conversion of convertible debentures. At the same time, the Company issued 174,000 common shares to settle the cash financing fee of \$66,198 (CAD\$87,000) in relation to the convertible debentures convertible at CAD\$0.50, and also issued 436,000 common shares at CAD\$0.40 for finders fees valued at \$127,417 (CAD\$174,000).

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

IONIC BRANDS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019
(Expressed in United States Dollars)

15. SHARE CAPITAL (Cont'd)

On March 22, 2019, the company issued 273,700 common shares as partial settlement for finders' fee in connection to the Blacklist subscription receipts instead of paying the full \$210,229 finders' fees in cash (see Note 15). The balance of \$104,800 finders' fees was paid in cash.

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

In April and May 2019, the Company issued 6,594,900 common shares to the holders of the Company's warrants as the holders opted to exercise their warrants for gross proceeds of \$1,153,955 (CAD\$1,541,200).

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

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

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

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

On June 24, 2019, the Company issued 140,582 common shares to a consultant as payment for services rendered. The fair value of the services was \$47,947 (CAD\$63,262); however, the fair value of the shares was \$41,555 and the Company recognized a gain of \$6,393 (CAD\$8,435).

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

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

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

On August 15, 2019, the Company issued 660,819 common shares for settlement of debt. The fair value of the debt was \$327,955 (CAD\$437,000); the fair value of the shares was \$74,389 (CAD\$99,123) and the Company recognized a gain of \$253,566 (CAD\$337,877).

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

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

IONIC BRANDS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019
(Expressed in United States Dollars)

15. SHARE CAPITAL (Cont'd)

On January 31, 2020, the Company issued 1,369,598 common shares for settlement of debt. The fair value of the debt was \$87,596 (CAD\$116,180); the fair value of the shares was \$16,974 (CAD\$22,461) and the Company recognized a gain of \$45,822 (CAD\$60,636).

On January 31, 2020, the Company issued 2,195,000 common shares to an officer of the Company as part of his remuneration. The fair value of the shares was \$27,203 (CAD\$35,998).

During the year ended December 31, 2020, the Company issued 28,856,762 common shares to holders of the Company's convertible debentures as the holders opted to convert their debentures and accrued interest of \$930,020 (CAD\$1,306,992). The Company recorded a gain on the debt settlement of \$16,756 (CAD \$23,595) as a result of the conversion of the debt to common shares as payment for the accrued interest.

Stock Options

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

On April 12, 2019, the Company granted 5,700,000 stock options to directors, employees and consultants. The options may be exercised within 5 years from the date of the grant at a price of CAD\$0.68 and having vesting periods ranging from the date of granting to nine months.

On August 16, 2019, the Company granted 2,518,000 stock options to directors, employees and consultants. The options may be exercised within 5 years from the date of the grant at a price of CAD\$0.20 and having vesting periods ranging from date of granting to nine months.

	Number of Options		Weighted Average Exercise Price (CAD)
Balance at December 31, 2020 and 2019	8,218,000	\$	0.53
Exercisable at December 31, 2020 and 2019	8,218,000	\$	0.53

As at December 31, 2020 and 2019, the following stock options were outstanding and exercisable:

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

The options have a grant date fair value of \$1,913,825 and the Company recorded share-based compensation of \$32,059 during the year ended December 31, 2020 (December 31, 2019 - \$1,881,766). All option grants were valued using the Black-Scholes Option Pricing Model with the following assumptions:

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

IONIC BRANDS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019
(Expressed in United States Dollars)

15. SHARE CAPITAL (Cont'd)

Warrants

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

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

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

- 3,000,000 warrants will vest and become fully exercisable upon the Company issuing common shares with an aggregate value of CAD\$5,000,000 in connection with a financing, other than the planned CAD\$5,000,000 outlined in Section 1.6 of LOI dated July 6, 2018 ("LOI Financing") where the holder acted as finder, underwriter, broker or in another similar capacity (the "Initial Financing"), within one calendar year of the closing of the transactions outlined in the Share Exchange Agreement dated February 26, 2019. These warrants shall be exercisable for 60 days following the closing date of the financing and shall only be exercisable during the exercisable period.
- 3,000,000 warrants will vest and become fully exercisable upon the Company issuing common shares with an aggregate value of CAD\$10,000,000 in connection with one or more financings (including funds raised in Initial Financing, but excluding any funds raised in the LOI Financing) in each case where the holder acted as a finder, underwriter, broker or in another similar capacity, within one calendar year of the closing of the transactions outlined the Share Exchange Agreement. These warrants shall be exercisable for 60 days following the closing date of the financing and shall only be exercisable during the exercisable period.

Each performance warrant is exercisable at CAD\$0.05 per share. As at December 31, 2019, the first and second performance conditions were achieved. The fair value of the performance warrants, \$2,026,615 (CAD\$2,717,894), has been recorded in equity. The fair value of warrants was estimated using the Black-Scholes Option Pricing Model assuming a risk-free interest rate of 1.54%, an expected life of 1.28 years, an expected volatility of 110% and no expected dividend.

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

- 3,977,280 warrants will vest and become fully exercisable upon the Company receiving at least eight conditional use permits that allowed the Company, or an affiliate of the Company to obtain a recreational cannabis license in the State of California by February 26, 2020. These warrants shall be exercisable for 60 days following the day the Company, or an affiliate of the Company, receives the eighth conditional use permit.
- 3,975,120 warrants will vest and become fully exercisable upon the Company having achieved total gross revenue of at least \$20,000,000 during the fiscal year ended December 31, 2019. These warrants shall be exercisable for 60 days following the day the Company publicly filed its annual consolidated financial statements.
- 3,047,600 warrants will vest and become fully exercisable upon the Company having achieved total gross revenue of at least \$80,000,000 during the fiscal year ended December 31, 2020. These warrants shall be exercisable for 60 days following the day the Company publicly filed its annual consolidated financial statements.

15. SHARE CAPITAL (Cont'd)

Warrants (Cont'd)

Each performance warrant is exercisable at CAD\$0.05 per share. As at December 31, 2019, all three performance conditions were either not achieved or determined by management to not be achievable; therefore, none of the warrants were vested and no expense recorded.

On May 15, 2019, the Company issued 2,600,000 financing fee warrants as financing fees. Each warrant is exercisable for CAD\$0.55 per share for a period of 12 months from issuance date.

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

On May 16, 2019, the Company issued 26,338,747 warrants as part of the Debenture Units issued (see Note 14). Each warrant is exercisable for CAD\$0.90 per share and expires on May 16, 2022.

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

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

The fair value of the agents' compensation warrants and finders warrants, \$427,732 (CAD\$574,829), is recorded in equity. The fair value of these warrants was estimated using the Black-Scholes Option Pricing Model assuming a risk-free interest rate of 1.57%, an expected life of 3 years, expected volatility of 110% and no expected dividend.

In February 2020, the Company amended its May Debentures Units whereby:

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

Due to the amendments to the Debenture warrants, the Company deemed to have cancelled the existing warrants and issued new warrants to the Debenture warrant holders. The Company used the Black-Scholes Option Pricing Model to estimate the fair value of the Debenture warrants being \$11,539, assuming a risk-free interest rate of 1.45%, an expected life of 2.23 years, expected volatility of 123% and no expected dividend.

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

The fair value of these warrants, \$1,036,409 (CAD\$1,382,247), is recorded in equity. The fair value of these warrants was estimated using the Black-Scholes Option Pricing Model assuming a risk-free interest rate of 1.43% - 1.59%, an expected life of 3 years, expected volatility of 110% and no expected dividend.

On December 31, 2020, the Corporation issued 150,000 warrants with an exercise price of \$0.05 per share, expiring 3 years from the issuance date in connection as a fee for the issuance of a loan to the Corporation (Note 12). No residual value was assigned to the warrant.

IONIC BRANDS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019
(Expressed in United States Dollars)

15. SHARE CAPITAL (Cont'd)

Warrants (Cont'd)

Details regarding warrants issued and outstanding are summarized as follows:

		Weighted average exercise price (CAD)	Number of shares issued or issuable on exercise
Warrants outstanding, beginning	\$	-	-
Warrants issued		0.64	54,974,293
Warrants exercised		0.20	(7,862,400)
Balance at December 31, 2019	\$	0.71	47,111,893
Warrants expired		0.46	(3,460,380)
Warrants issued		0.05	150,000
Balance at December 31, 2020	\$	0.21	43,801,513

The expiry dates of warrants are as follows:

Grant Date	Expiry Date	Weighted average exercise price (CAD)	Number of warrants issued
March 22, 2019	June 30, 2021	0.05	11,000,000
April 1, 2019	April 1, 2022	1.33	3,114,998
May 16, 2019	May 16, 2022	0.90	27,833,040
July 1, 2019	July 1, 2022	1.33	1,703,475
December 31, 2020	December 31, 2023	0.05	150,000
		\$	0.21
			43,801,513

There are 32,801,513 exercisable warrants and 11,000,000 performance warrants that are not exercisable at December 31, 2020.

16. COMMITMENTS AND CONTINGENCIES

Commitments

Vehicle Loans

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

	December 31, 2020		December 31, 2019	
Balance, beginning of year	\$	107,745	\$	113,269
Issued		36,078		68,499
Interest expense		5,714		7,540
Repayments		(32,194)		(47,283)
Retirement		-		(34,280)
Balance, end of year		117,343		107,745
Current		30,094		26,606
Long-term	\$	87,249	\$	81,139

IONIC BRANDS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019
(Expressed in United States Dollars)

16. COMMITMENTS AND CONTINGENCIES (Cont'd)

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

Year	
2021	30,094
2022	28,788
2023	26,581
2024	18,492
2025	13,388
Total	\$ 117,343

Contingencies

The Company is involved in litigation and disputes arising in the normal course of operations with regards to monies owed for services. Management is of the opinion that any potential litigation will not have a material adverse impact on the Company's financial position or results of operations. Subsequent to the year ended December 31, 2020, ongoing litigation was resolved, resulting in the Company making a cash payment of \$75,000 and the issuance of 372,566 Common Shares at a deemed price of \$0.20 per share.

17. REVENUE

The Company generates revenue from the transfer of goods and services over time and at a point-in-time from the revenue streams below. Net revenue from sale of goods is reflected net of returns, if any.

For the year ended December 31, 2020	Point-in-Time (\$)	Over-Time (\$)	Total (\$)
Management services and royalty fees		5,863,265	5,863,265
Sale of products	2,183,154		2,183,154
Rental income		921,004	921,004
	2,183,154	6,784,269	8,967,423

For the year ended December 31, 2019	Point-in-Time (\$)	Over-Time (\$)	Total (\$)
Management services fees and royalty fees	-	4,311,852	4,311,852
Sale of products	5,135,007	-	5,135,007
Rental income	-	840,588	840,588
	5,135,007	5,152,440	10,287,447

18. INCOME TAXES

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

	December 31, 2020	December 31, 2019
Net loss before tax	\$ (6,680,742)	\$ (42,502,634)
Statutory tax rate	27%	27%
Expected income tax recovery	(1,803,800)	(11,475,711)
Impact of different foreign statutory tax rates on earnings of subsidiaries	453,800	1,117,711
Non-deductible expenditures and non-taxable revenues	60,000	5,139,000
Adjustments to prior year provisions versus statutory tax returns	502,000	813,957
Foreign exchange	(53,000)	(19,957)
Change in unrecognized deductible temporary differences	841,000	4,197,281
Income tax recovery	\$ -	\$ (227,719)

IONIC BRANDS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019
(Expressed in United States Dollars)

18. INCOME TAXES (Cont'd)

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

	December 31, 2020	December 31, 2019
Deferred tax assets (liabilities):		
Share issuance costs	\$ 19,000	\$ 25,000
Property and equipment	1,000	-
Intangibles	(78,000)	(140,000)
Non-capital losses available for future period (USA)	6,948,000	6,747,000
Non-capital losses available for future period (Canada)	2,921,000	2,289,000
	9,811,000	8,921,000
Unrecognized deferred tax assets	(9,811,000)	(8,921,000)
	\$ -	\$ -

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

	December 31, 2020	December 31, 2019
Temporary differences:		
Share issuance costs	\$ 70,710	\$ 91,061
Non-capital losses available for future period (USA)	\$ 32,099,670	\$ 31,158,539
Non-capital losses available for future period (Canada)	\$ 10,817,200	\$ 8,477,319

The Company has approximately \$10,817,200 of non-capital losses in Canada which expire between 2030 – 2040, and approximately \$32,099,670 of non-capital losses in the US which expire between 2034 – 2040. Tax attributes are subject to review and potential adjustment by tax authorities.

19. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

Credit Risk

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

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

IONIC BRANDS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019
(Expressed in United States Dollars)

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

Accounts Receivable

Accounts receivable primarily consist of trade receivables and sales tax receivable. The Company provides credit to very limited customer base in the normal course of business and has established credit evaluation via an active direct consultation with its customers to mitigate credit risk. Accounts receivable are shown net of any provision made for impairment of receivables. Due to this factor, the Company believes that no additional credit risk, beyond amounts provided for collection loss, is inherent in accounts receivable.

Expected credit loss ("ECL") analysis is performed at each reporting date using an objective approach to measure expected credit losses since the COVID-19 outbreak. The provision amounts are based on direct management interface with the customer. The calculations reflect the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Accounts receivable are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, business failure, the failure of a debtor to engage in a repayment plan, and a failure to make contractual payments over the negotiated contract period.

The Company's aging of trade receivables was as follows:

	December 31, 2020 (\$)	December 31, 2019 (\$)
0 – 30 days	611,139	750,888
31 – 60 days	284,395	276,674
61 - 90 days	269,300	399,625
91 + days	120,100	1,825,324
	<u>1,284,934</u>	<u>3,252,511</u>

For the years ended December 31, 2020 and 2019, the following revenue was recorded from customers that comprise 10% or more of revenue:

Percentage of revenue from major customers	2020	2019
Customer A (related party)	93%	67%
Customer B (related party)	-	12%

Liquidity Risk

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

The table below summarizes the maturity profile of the Company's financial liabilities at December 31, 2020:

	On demand (\$)	Less than 1 year (\$)	1 to 2 years (\$)	2 to 3 years (\$)	Total (\$)
Trade payables	3,992,197	-	-	-	3,992,197
Lease liabilities	-	381,600	193,905	-	575,505
Vehicle loans	-	30,094	55,369	31,880	117,343
Loans payable and accrued interest	2,815,025	-	-	-	2,815,025
Convertible debt	-	-	-	15,472,039	15,472,039
Total liabilities	6,807,222	411,694	249,274	15,503,919	22,972,109

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

Foreign Exchange Risk

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

Interest Rate Risk

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

Other Price Risk

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

Fair Value

The fair value of the Company's financial assets and liabilities approximates the carrying amount. Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1	Unadjusted quoted prices in active markets for identical assets or liabilities
Level 2	Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3	Inputs that are not based on observable market data

The Company did not have any marketable securities at December 31, 2020.

The Company determined that the carrying values of its short-term financial assets and liabilities approximate the corresponding fair values because of the relatively short periods to maturity of these instruments and the low credit risk.

The carrying value of the Company's convertible debentures approximates fair value as the liability component was discounted using an estimated market rate (Note 14).

There were no transfers between the levels of the fair value hierarchy during the period.

CAPITAL MANAGEMENT

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

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new equity issuances or by undertaking other activities as deemed appropriate under the specific circumstances. The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2020.

20. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASHFLOWS

- Interest paid during the year ended December 31, 2020 was \$464,956 (December 31, 2019 - \$778,572);
- The Company acquired \$902,000 of intangibles that had been included in accounts receivable in the prior year ended December 31, 2019.
- During the year ended December 31, 2020, the Company acquired \$200,000 of lab equipment through the assumption of debt (December 31, 2019 - \$nil).

21. SUBSEQUENT EVENTS

- On February 8, 2021, the Company consolidated its common shares at a ratio of one post-consolidated common share for every six pre-consolidated common shares (the "Share Consolidation"). As a result of the share consolidation, the weighted average number of shares outstanding, basic and diluted would reduce from 189,342,039 common shares to 31,557,006 common shares outstanding (2019: weighted average common shares of 124,897,942 would reduce to 20,816,323 post share consolidation common shares) and loss per share, basic and diluted would increase from \$0.04 loss per share to \$0.21 loss per share for the year end December 31, 2020 (2019: loss per share of \$0.34 per common share would increase to \$2.04 loss per common share post share consolidation].
- On March 2, 2021, the Company issued 77,695,502 units at a price of CAD \$0.19 per unit for total gross proceeds of CAD \$14,762,145. Each unit consist of one common share of the Company and one share purchase warrant, exercisable at CAD \$0.30 per share for five years from the issuance date. The Company paid finders' fees of CAD \$1,094,912 and issued finders fees of 7,285,014 finder's warrants exercisable at CAD \$0.19 per share for a period of two years from the issuance date.
- On March 8, 2021, the Company entered into an agreement for the acquisition of the cannabis assets relating to Washington-based Cowlitz County Cannabis Cultivation Inc. ("Cowlitz") held by Lobe Sciences Ltd.'s ("Lobe") subsidiary vendor. The total consideration paid for this acquisition is valued at approximately CAD \$32 million payable in cash of CAD\$1.75 million, issuance of 100,406,701 Series E non-voting preferred shares ("Preferred Share"), 4,000,000 warrants of the company, and a \$50,000 secured promissory note. The Preferred Shares are exchangeable into one common share on a one-for-one basis (subject to adjustment, and provided that the holder's share ownership of the Company remains below 10% at the time of conversion) and carries an annual dividend equal to 13% for a period of two years from the date of issuance, with the Preferred Shares automatically converting to Common Shares four years from the issuance date.
- On April 16, 2021, the Company issued 6,775,000 stock options with an exercise price of CAD \$0.195 expiring on April 16, 2026. The stock options have a vesting period as follows: 50% vested immediately, 25% after three months the issuance date, and the balance after nine months from issuance date.

In addition, the Company issued 2,000,000 warrants exercisable at CAD \$0.195 per share. 50% of the warrants vest immediately, 25% will vest three months after the date of issuance, and the balance will vest nine months after the date of issuance.

The Company also issued two consultants each 1,000,000 warrants to exercisable at CAD \$0.175 per share for a period of five years from the date of issuance.

- The Company settled a total of \$350,091 in contingent debt that was assumed from the 2019 acquisition of Db3 and Natural Extractions Washington corporations. In exchange, the Company made a cash payment of \$75,000 and issued 372,566 Common Shares at a deemed price of CAD \$0.20 per share.

IONIC BRANDS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019
(Expressed in United States Dollars)

21. SUBSEQUENT EVENTS (Cont'd)

- On April 30, 2021, the Company converted \$15,093,840 convertible debentures into 59,829,261 Series D Voting Preferred Shares at CAD \$0.30 per share.
- Subsequent to December 31, 2020, the Company issued 46,713,066 pre-consolidation common shares to holders of the convertible debentures as the holders opted to convert their debentures and accrued interest with a face value of CAD \$2,338,134 into common shares.
- On June 16, 2021, the Company acquired the cannabis assets of Oregon Processing Solutions (“OPS”). The transaction is valued at approximately US\$1,500,000, of which US\$50,000 was paid in cash upon execution of documents and US\$450,000 at closing and approval of license transfer. The balance of US\$1,000,000 is to be paid according to a thirty-month payment schedule at an annual interest rate of 4%.