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# **ISODIOL INTERNATIONAL INC.**

## **CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**For the three months ended June 30, 2019**

**(Expressed in Canadian Dollars)**

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## **NOTICE TO READER**

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

The accompanying unaudited condensed consolidated interim financial statements of Isodiol International Inc. (the "Company") have been prepared by and are the responsibility of management. These condensed consolidated interim financial statements for the three months ended June 30, 2019 have not been reviewed or audited by the Company's independent auditors. All amounts are stated in Canadian Dollars.

# ISODIOL INTERNATIONAL INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION  
(Expressed in Canadian Dollars)

As at	June 30, 2019	March 31, 2019
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 3,173,071	\$ 403,814
Prepaid expenses and deposits	2,712,854	2,203,545
Receivables (Note 6)	4,702,958	13,384,540
Inventory (Note 7)	1,012,656	858,640
Investments (Note 8)	1,266,600	2,470,020
Loans receivable (Note 9)	300,000	518,000
	<u>13,168,139</u>	<u>19,838,559</u>
Long term receivable (Note 6)	2,246,600	2,162,600
Fixed assets (Note 4)	1,196,172	1,267,925
Leasehold improvements (Note 4)	331,444	348,889
Right-of use asset (Note 5)	713,731	-
	<u>713,731</u>	<u>-</u>
Total Assets	\$ 17,656,086	\$ 23,617,973
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 5,754,491	\$ 5,536,494
Due to related parties (Note 15)	29,178	685,803
Loans payable (Notes 11)	-	2,906,033
Lease liability (Note 12)	254,719	-
Deferred revenue	2,318,992	2,366,785
	<u>8,357,380</u>	<u>11,495,115</u>
Convertible debt (Note 13)	5,281,863	5,189,960
Lease liability (Note 12)	456,971	-
	<u>14,096,214</u>	<u>16,685,075</u>
<b>Shareholders' equity</b>		
Share capital (Note 14)	178,275,839	176,979,582
Subscriptions (Note 14)	(2,471,961)	(1,799,111)
Equity portion of convertible debt (Note 13)	606,624	606,624
Reserves	6,423,989	6,423,989
Accumulated other comprehensive income	(639,567)	531,774
Accumulated Deficit	(178,635,052)	(175,809,960)
	<u>3,559,872</u>	<u>6,932,898</u>
Total shareholder's equity		
	<u>3,559,872</u>	<u>6,932,898</u>
Total Liabilities and Shareholder's Equity	\$ 17,656,086	\$ 23,617,973

**Nature of operations and going concern** (Note 1)

**Commitments** (Note 19)

Approved and authorized by the Board on August 28, 2019:

"Marcos Agramont"

Director

"Leo Matesanz"

Director

Accompanying notes are an integral part of these condensed consolidated interim financial statements

# ISODIOL INTERNATIONAL INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS  
(Expressed in Canadian Dollars)

	For the three months ended June 30, 2019	For the three months ended June 30, 2018
<b>Sales</b>	\$ 4,219,571	\$ 6,179,034
<b>Cost of goods sold</b>	<u>(3,142,182)</u>	<u>(3,491,687)</u>
<b>Gross profit</b>	1,077,389	2,687,347
<b>Operating Expenses</b>		
Consulting fees	49,178	921,641
Wages & Salaries	816,238	1,871,219
Commissions	233,317	-
Advertising & promotions	1,050,279	580,081
Merchant fees	25,648	-
Research & development	-	15,902
Filing and transfer agent fees	18,073	31,136
Investor relations	12,000	258,332
Management fees (Note 15)	107,850	335,272
General and administration	393,737	764,111
Insurance	3,878	5,674
Professional fees	235,413	184,324
Rent	169,805	165,781
Amortization (Note 4)	89,198	625,256
Travel and promotions	157,477	413,447
Acquisition advisory fees	-	210,000
Website expenses	-	2,303
<b>Total operating expenses</b>	<u>(3,362,091)</u>	<u>(6,384,479)</u>
<b>Loss before other items</b>	<u>(2,284,702)</u>	<u>(3,697,132)</u>
<b>Other income (expense)</b>		
Loss on exchange rate	(5,756)	(173,913)
Bad debt (Note 6)	(532,000)	(3,280)
Interest expense (Note 12 and 13)	(89,862)	-
Interest income (Note 6)	87,228	-
<b>Net loss before discontinued operations</b>	\$ (2,825,092)	\$ (3,874,325)
Net income from discontinued operations, net of tax	-	49,749
<b>Net loss for the period</b>	<u>\$ (2,825,092)</u>	<u>\$ (3,824,576)</u>
Translation adjustment, attributable to:		
Continuing operations	(1,171,341)	(757,237)
Discontinued operations	-	712,274
<b>Net and comprehensive loss for the period</b>	<u>\$ (3,996,433)</u>	<u>\$ (3,869,539)</u>
Basic and diluted loss per common share	\$ (0.06)	\$ (0.12)
Basic and diluted loss per common share, continuing operations	(0.06)	(0.12)
Basic and diluted loss per common share, discontinued operations	-	(0.00)
<b>Weighted average number of common shares outstanding</b>	48,891,377	33,094,916

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

# ISODIOL INTERNATIONAL INC.

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (Expressed in Canadian Dollars)

	Share capital		Subscriptions	Equity portion of convertible debt	Reserves		Accumulated other comprehensive income	Deficit	Total
	Number	Amount			Warrants	Share Obligations and share- based payments			
<b>Balance, March 31, 2018</b>	30,081,093	\$ 90,143,673	\$ -	\$ -	\$ 976,376	\$ 6,686,855	\$ (139,947)	\$ (49,896,946)	\$ 47,770,011
Shares issued for cash	2,465,757	18,000,000	-	-	-	-	-	-	18,000,000
Share issuance costs	-	(880,783)	-	-	-	-	-	-	(880,783)
Shares issued for services	266,684	905,000	-	-	-	-	-	-	905,000
Shares issued pursuant to options exercised	320,000	662,000	-	-	-	-	-	-	662,000
Shares issued pursuant to licensing agreement	88,749	940,743	-	-	-	-	-	-	940,743
Shares issued pursuant to warrants exercised	77,032	192,584	-	-	-	-	-	-	192,584
Shares issued pursuant to acquisitions	5,832,779	49,530,824	-	-	-	-	-	-	49,530,824
Shares issued for finders' fees	20,000	210,000	-	-	-	-	-	-	210,000
Foreign currency translation adjustment	-	-	-	-	-	-	(44,991)	-	(44,991)
Net loss for the period	-	-	-	-	-	-	-	(3,824,576)	(3,824,576)
<b>Balance, June 30, 2018</b>	39,152,094	\$ 159,704,041	\$ -	\$ -	\$ 976,376	\$ 6,686,855	\$ (184,938)	\$ (53,721,522)	\$ 113,460,812
Shares issued for cash, net	-	-	(2,200,001)	-	-	-	-	-	(2,200,001)
Subscriptions received	-	-	400,890	-	-	-	-	-	400,890
Shares issued pursuant to options exercised	337,000	2,474,953	-	-	-	(1,853,403)	-	-	621,550
Shares issued pursuant to licensing agreement	1,022,385	2,941,748	-	-	-	-	-	-	2,941,748
Share-based payments and shares for services	7,334,788	11,858,840	-	-	-	483,545	-	-	12,342,385
Convertible debt	-	-	-	606,624	130,616	-	-	-	737,240
Foreign currency translation adjustment	-	-	-	-	-	-	716,712	-	716,712
Net loss for the period	-	-	-	-	-	-	-	(122,088,438)	(122,088,438)
<b>Balance, March 31, 2019</b>	47,846,267	\$ 176,979,582	\$ (1,799,111)	\$ 606,624	\$ 1,106,992	\$ 5,316,997	\$ 531,774	\$ (175,809,960)	\$ 6,932,898
Shares issued for cash, net (Note 14)	521,259	672,850	(672,850)	-	-	-	-	-	-
Shares issued to settle liabilities (Note 14)	523,851	623,407	-	-	-	-	-	-	623,407
Shares issued pursuant to acquisition agreement (Note 14)	8,860,896	13,291,345	-	-	-	-	-	-	13,291,345
Shares held internally to be cancelled (Note 14)	(8,860,896)	(13,291,345)	-	-	-	-	-	-	(13,291,345)
Foreign currency translation adjustment	-	-	-	-	-	-	(1,171,341)	-	(1,171,341)
Net loss for the period	-	-	-	-	-	-	-	(2,825,092)	(2,825,092)
<b>Balance, June 30, 2019</b>	48,891,377	\$ 178,275,839	\$ (2,471,961)	\$ 606,624	\$ 1,106,992	\$ 5,316,997	\$ (639,567)	\$ (178,635,052)	\$ 3,559,872

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

# ISODIOL INTERNATIONAL INC.

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

(Expressed in Canadian Dollars)

	For the three months ended June 30, 2019	For the three months ended March 31, 2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss from continuing operations	\$ (2,825,092)	\$ (3,874,325)
Loss from discontinued operations	-	49,749
	<u>\$ (2,825,092)</u>	<u>\$ (3,824,576)</u>
Items not involving cash:		
Shares issued for services	-	450,000
Shares issued for finder's fees	-	210,000
Fair value adjustment on long-term receivable	(84,000)	-
Interest accrual	91,903	-
Amortization	89,198	697,535
Right-of use asset amortization	82,865	-
Lease liability interest accrual	14,901	-
Change in income tax estimate	-	(140,236)
Bad debt	532,000	-
Changes in non-cash working capital items:		
Receivables	8,149,582	(5,557,198)
Prepaid expenses and deposits	(509,309)	(1,648,214)
Inventory	(154,016)	(3,986,881)
Related parties receivable	-	1,854,679
Accounts payable and accrued liabilities	841,404	(137,373)
Related parties payable	(656,625)	(516,170)
Deferred Revenues	(47,793)	(211,216)
	<u>5,525,018</u>	<u>(15,361,294)</u>
Cash provided/(used) by operating activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash received on acquisitions	-	1,510,841
Investment (Note 8)	1,203,420	(1,995,931)
Acquisition deposits	-	7,318,403
Fixed assets	-	(3,287,609)
Leasehold improvements	-	(41,009)
Intangible assets	-	(5,877,112)
Acquisition payable	-	(1,619,238)
Loans receivable	218,000	(454,439)
	<u>1,421,420</u>	<u>(4,373,815)</u>
Cash provided/(used) by investing activities		
<b>CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of common shares (Note 14)	-	15,799,000
Share issue costs (Note 14)	-	(880,783)
Proceeds from options exercised	-	409,000
Proceeds from warrants exercised	-	192,584
Payment of lease liability (Note 12)	(99,807)	-
Repayment of loans (Note 11)	(2,906,033)	-
	<u>(3,005,840)</u>	<u>15,519,801</u>
Cash provided/(used) by financing activities		
<b>Effect of exchange rate changes</b>	(1,171,341)	180,902
<b>Change in cash during the period</b>	2,769,257	(4,034,406)
<b>Cash, beginning of period</b>	<u>403,814</u>	<u>15,549,664</u>
<b>Cash, end of period</b>	\$ 3,173,071	\$ 11,515,258
<b>Cash paid during the period for interest</b>	\$ (362,561)	\$ (9,491)
<b>Cash paid during the period for income tax</b>	\$ -	\$ -

Supplemental Cash Flow Information (Note 20)

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

# ISODIOL INTERNATIONAL INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended June 30, 2019

(Expressed in Canadian Dollars)

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### 1. NATURE OF OPERATIONS AND GOING CONCERN

Isodiol International Inc. (the "Company") was incorporated under the Business Corporations Act (British Columbia) on June 2, 2014, as Grenadier Resource Corp. The Company commenced trading on the Canadian Securities Exchange ("CSE") under the symbol "GAD" in July 2014. The Company changed its name from Grenadier Resource Corp. to Laguna Blends Inc. on September 18, 2015 in conjunction with a reverse takeover transaction (the "RTO"). On September 22, 2015, the Company resumed trading on the Canadian Securities Exchange at the opening of the market on September 23, 2015 under the new symbol "LAG".

On June 9, 2017 the Company changed its name to Isodiol International Inc and trades under the new symbol "ISOL" on the Canadian Securities Exchange. The Company is a manufacturer and developer of phytoceutical consumer products using pharmaceutical and nutraceutical grade phytochemical compounds.

Effective July 24, 2018, the Company completed a share consolidation of its share capital on the basis of ten existing common shares for one new common share.

All information in these condensed consolidated interim financial statements is presented on a post-share consolidation basis, including the number and exercise price of all share options and warrants.

The Company's registered and records office is at 1500, 1055 West Georgia Street, Vancouver, BC V6E 4N7. The corporate head office is at 2710 – 200 Granville Street, Vancouver, BC V6C 1S4.

These condensed consolidated interim financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. During the three months ended June 30, 2019, the Company's operations did not generate positive cash flows, the Company incurred a net loss of \$2,825,092 (2019 - \$3,874,325) and the Company had an accumulated deficit of \$178,635,052 (2018 - \$175,809,960). The Company's continuation as a going concern is dependent upon its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. These conditions indicate the existence of a material uncertainty that may give rise to significant doubt about the entity's ability to continue as a going concern.

### 2. BASIS OF PREPARATION

#### Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting". They do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's audited annual consolidated financial statements for the fiscal year ended March 31, 2019, filed August 16, 2019, which have been prepared in accordance 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").

The condensed consolidated interim financial statements were authorized for issue in accordance with a resolution from the Board of Directors on August 28, 2019.

#### Basis of Consolidation and Presentation

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for certain financial assets that are measured at fair value. All dollar amounts presented are in Canadian dollars unless otherwise specified.

# ISODIOL INTERNATIONAL INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended June 30, 2019

(Expressed in Canadian Dollars)

### 2. BASIS OF PREPARATION - (CONTINUED)

#### Basis of Consolidation and Presentation (continued)

These consolidated financials incorporate the financial statements of the Company and its wholly controlled subsidiaries, ISO International, LLC, a company incorporated under the Limited Liability Companies Act of the state of Wyoming, Laguna Blends (USA) Inc. ("Laguna USA"), a company incorporated in the State of Nevada and extra-provincially registered in British Columbia, Laguna Blends (Canada) Inc. ("Laguna Canada"), a company incorporated in British Columbia, The Bradley's Brand, Inc, a company incorporated in the state of Arizona, IsoBev, Inc. a company incorporated in the state of Florida, Isobev International Inc. a company incorporated in British Columbia, Isolabs International Inc. a company incorporated in British Columbia, Iso-sport International Inc. a company incorporated in British Columbia, C3 Global Biosciences, Inc., a company incorporated in the state of Nevada, and Purodiol do Brasil Ltda., a Company incorporated in Brazil. During the year ended March 31, 2019, the Company disposed of the following subsidiaries, BSPG Laboratories Ltd., a Company incorporated in the United Kingdom, Azure Bottling LLC, a Company incorporated in Florida and Kure Corp. a Company incorporated in Florida. The activities of these subsidiaries were reclassified to discontinued operations for the three months ended June 30, 2018.

Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The condensed consolidated interim financial statements include the accounts of the Company and its direct wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

The table below lists the Company's subsidiaries and investments in affiliates that exist at June 30, 2019.

Subsidiary	Ownership %	Accounting method
ISO International, LLC	100%	Consolidation
Laguna Blends (USA) Inc.	100%	Consolidation
Laguna Blends (Canada) Inc.	100%	Consolidation
Isolabs International Inc.	100%	Consolidation
Iso-Sport International Inc.	100%	Consolidation
The Bradley's Brand, Inc.	100%	Consolidation
C3 Global Biosciences, Inc.	100%	Consolidation
IsoBev, Inc.	100%	Consolidation
IsoBev International Inc.	100%	Consolidation
Wold Holdings Inc.	100%	Consolidation
Purodiol do Brasil Ltda.	99%	Consolidation

#### Use of Estimates and Judgments

The preparation of these consolidated financial requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported expenses during the period. Actual results could differ from these estimates.

#### *Critical Accounting Judgments*

The assumption that the Company will be able to continue as a going concern is subject to critical judgments by management with respect to assumptions surrounding the short and long-term operating budget, expected profitability, investing and financing activities and management's strategic planning. Should those judgments prove to be inaccurate, management's continued use of the going concern assumption could be inappropriate.



# ISODIOL INTERNATIONAL INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended June 30, 2019

(Expressed in Canadian Dollars)

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### 2. BASIS OF PREPARATION (CONTINUED)

Use of Estimates and Judgments (continued)

#### *Business combinations*

Judgment is used when determining whether an acquisition is a business combination or an asset acquisition. Judgment is also used in measuring the fair value of equity instruments issued as consideration for a business combination, and in allocating the fair value of consideration paid to the assets acquired and liabilities assumed.

#### *Functional currency*

Determination of an entity's functional currency involves judgment taking into account the transactions, events, and conditions relevant to the entity. Determination of functional currency involves evaluating evidence about the primary economic environment in which the entity operations and is re-evaluated when facts and circumstances indicate that conditions have changed.

#### *Financial Instruments*

The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgements or assessments made by management.

#### *Critical Accounting Estimates*

##### *Income Taxes*

The determination of income tax is inherently complex and requires making certain estimates and assumptions about future events. While income tax filings are subject to audits and reassessments, the Company has adequately provided for all income tax obligations. However, changes in facts and circumstances as a result of income tax audits, reassessments, jurisprudence and any new legislation may result in an increase or decrease in our provision for income taxes.

##### *Inventory*

The Company estimates the net realizable value of inventory taking into account the most reliable evidence available at each reporting date.

##### *Estimated useful lives, impairment considerations and amortization of tangible and intangible assets*

Amortization of tangible and intangible assets is dependent upon estimates of useful lives based on management's judgment.

Goodwill impairment testing requires management to make critical estimates within the impairment testing model. On an annual basis, the Company tests whether goodwill is impaired.

Impairment of tangible and intangible assets with limited lives is affected by judgments about indications of impairment and estimates used to measure impairment losses where necessary.

The recoverable value of goodwill and tangible and intangible assets is determined using discounted cash flow models, which incorporate assumptions about future events including future cash flows, growth rates and discount rates.

##### *Convertible notes*

The identification of convertible note components is based on interpretations of the substance of the contractual arrangement and therefore requires judgement from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.

# ISODIOL INTERNATIONAL INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended June 30, 2019

(Expressed in Canadian Dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES

With the exception of the recently adopted accounting policies, these condensed consolidated interim financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company's amended audited annual financial statement for the fiscal year ended March 31, 2019, filed August 16, 2019.

#### **Accounting standard anticipated to be effective**

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning after January 1, 2019, or later periods. New standards and updates, which are not applicable or are not consequential to the Company, have been excluded from the list below.

IFRIC 23 *Uncertainty over income tax treatments* clarifies the application of recognition and measurement requirement in IAS 12, Income Taxes, when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers each tax treatment independently or collectively, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax credits and tax rates, and how an entity considers changes in facts and circumstances. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. The Company intends to adopt IFRIC 23 on April 1, 2019 retrospectively and does not think the adoption will have an impact on the Company's condensed consolidated interim financial statements.

#### **Changes in significant accounting policies and adoption of new accounting standards**

The following new accounting policies were adopted during the three months ended June 30, 2019:

The Company adopted the requirements of IFRS 16 effective April 1, 2019. This new standard replaces IAS 17 Leases and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to the current accounting for finance leases, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is substantially changed.

On adoption, the Company transitioned to the new standard using the modified retrospective approach and:

- a) Measured the lease liability based on the present value of the remaining lease payments discounted using the Company's incremental borrowing rate of at April 1, 2019;
- b) Measured the right-of-use asset as if IFRS 16 had been applied since the commencement date, but discounted using the Company's incremental borrowing rate at April 1, 2019; and
- c) Recording the cumulative difference to deficit;

The net impact on retained earnings on April 1, 2019 was a \$nil.

# ISODIOL INTERNATIONAL INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended June 30, 2019

(Expressed in Canadian Dollars)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Changes in significant accounting policies and adoption of new accounting standards (continued)

The following is a reconciliation of total operating lease commitments at March 31, 2019, to the lease liabilities recognized at April 1, 2019:

Lease liabilities before discounting	\$	864,862
Discounted using incremental borrowing rate of 15%		(68,266)
Operating lease liability		796,596

The following is a reconciliation of lease liabilities to right of use lease asset at April 1, 2019:

Operating lease liability at April 1, 2019	\$	796,596
Lease payments prior to April 1, 2019		-
Right of use lease asset as of April 1, 2019		796,596

For any new contracts entered into on or after January 1, 2019, the Company considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Company assesses whether the contract meets three key evaluations which are whether:

- The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company;
- The Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- The Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

#### *Measurement and recognition of leases as a lessee*

At lease commencement date, the Company recognizes a right-of-use asset and a lease liability on the balance sheet. The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available. If the interest rate implicit in the lease is not readily available, the Company discounts using the Company's incremental borrowing rate. Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term. On the statement of financial position, right-of-use assets have been included under non-current assets and lease liabilities have been included under current and non-current liabilities.

# ISODIOL INTERNATIONAL INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended June 30, 2019

(Expressed in Canadian Dollars)

### 4. FIXED ASSETS

	Office equipment	Computer equipment	Vehicles	Total Equipment	Leasehold Improvements
<b>Cost</b>					
<b>Balance, March 31, 2019 and June 30, 2019</b>	\$ 1,396,328	\$ 237,073	\$ 80,023	\$ 1,713,424	\$ 486,166
<b>Accumulated depreciation</b>					
Balance, March 31, 2019	\$ 295,940	\$ 141,555	\$ 8,004	\$ 445,499	\$ 137,277
Amortization for the period	55,019	13,133	3,601	71,753	17,445
<b>Balance, June 30, 2019</b>	\$ 350,019	\$ 154,688	\$ 11,605	\$ 517,252	\$ 154,722
<b>Carrying amounts</b>					
As at March 31, 2019	\$ 1,100,388	\$ 95,518	\$ 72,019	\$ 1,267,925	\$ 348,889
As at June 30, 2019	\$ 1,045,369	\$ 82,385	\$ 68,418	\$ 1,196,172	\$ 331,444

### 5. RIGHT-OF USE ASSETS

The Company's right-of-use asset relates to the lease of office space. On adoption of IFRS 16, the group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of April 1, 2019.

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on April 1, 2019 was 15%.

<b>Cost</b>	
Balance, April 1, 2019, on adoption of IFRS 16	\$ 796,596
<b>Accumulated depreciation</b>	
Balance, April 1, 2019	-
Depreciation	82,865
Balance, June 30, 2019	82,865
Carrying amount, June 30, 2019	713,731

# ISODIOL INTERNATIONAL INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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(Expressed in Canadian Dollars)

### 6. RECEIVABLES

Receivables recognized on the statement of financial position are comprised of:

	June 30, 2019	March 31, 2019
Sales tax recoverable*	\$ 199,514	\$ 672,721
Trade receivables, net	1,622,880	2,815,680
Proceeds on sale of BSPG (note 10)	2,196,879	9,212,454
Promissory note receivable**	683,685	683,685
Subscriptions receivable	-	-
<i>Accounts receivable</i>	<u>4,702,958</u>	<u>13,384,540</u>
<i>Long term receivable on sale of BSPG (note 10)</i>	<u>2,246,600</u>	<u>2,162,600</u>
	<u>\$ 6,949,558</u>	<u>\$ 15,547,140</u>

\*Sales tax receivable is due from Canadian government taxation authorities.

\*\*On December 1, 2018, the Company entered into a promissory note agreement with Kure Corp. for a total of USD\$500,000 plus annual interest earned at the IRS US federal rate. The promissory note is due by the earlier of (i) November 30, 2019, (ii) 120 days from the effective date of a spin out transaction, or (iii) the completion of a financing by the borrower in the amount of not less than USD\$1,000,000.

Current amounts receivable have maturities of less than one year and the net carrying value of receivables is considered a reasonable approximation of fair value. The Company anticipates full recovery of these amounts and therefore no impairment has been recorded against receivables. The Company's net receivable balance is all considered current and are not past due or impaired. The Company does not possess any collateral related to these assets. The Company expects all amounts to be subsequently received.

During the three months ended June 30, 2019, the Company recognized bad debts expense of \$532,000 (2018 – \$3,280). Bad debt expense consists of the current period increase in allowance for doubtful accounts of \$532,000 (2018 - \$nil) over its trade receivables.

During the three months ended June 30, 2019, the Company recognized amortization of long term receivable of \$84,000 (2018 – \$nil) recognized within interest income.

### 7. INVENTORY

As at June 30, 2019, the Company's inventory balance consists of finished good merchandise ready for sale. During the three months ended June 30, 2019, the Company expensed \$3,142,182 of inventory included within cost of goods sold.

# ISODIOL INTERNATIONAL INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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### 8. INVESTMENTS

The Company's investments are as follows:

	10330698 Canada Ltd.	Promedia Investments Inc.	Total
Balance, March 31, 2019	\$ 1,935,500	\$ 534,520	\$ 2,470,020
Cash received on sale	(1,203,420)	-	(1,203,420)
<b>Balance, June 30, 2019</b>	<b>\$ 732,080</b>	<b>\$ 534,520</b>	<b>\$ 1,266,600</b>

On April 20, 2018, the Company purchased 6,451,613 common shares of 10330698 Canada Ltd., representing 10% of the shares issued and outstanding at a value of \$0.31 per share for a total investment of \$2,000,000. 10330698 Canada Ltd. is a private company without a quoted market price in an active market.

On March 25, 2019, the Company entered into an agreement with a private equity agent to sell 10330698 Canada Ltd's shares. Advisory fees of \$64,500 will be paid on the sale of all shares, recognized as a reduction to the investment and a loss on investment. During the period ended June 30, 2019, the Company sold 3,882,000 shares for total proceeds of \$1,203,420 and expects to sell the remaining value in the coming period.

On July 11, 2018, the Company purchased 400,000 common shares of Promedia Investments Inc. ("Promedia"), at a value of USD\$1.00 per share for a total investment of USD\$400,000. Promedia is a private company without a quoted market price in an active market. Management evaluates the fair value of the investment at the end of each quarter and notes that there were no indicators of impairment.

ISO international LLC holds 428,254 common shares of the parent company, Isodiol International Inc. These shares were issued pursuant to the licensing agreement entered into with ISO International LLC prior to it becoming a wholly-owned subsidiary. As of June 30, 2019, the Company recognizes \$618,750 as shares held internally and its value is eliminated on consolidation.

# ISODIOL INTERNATIONAL INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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### 9. LOANS RECEIVABLE

	<b>Canadian National Pharma Group Inc.</b>
Balance, March 31, 2019	\$ 518,000
Cash received on sale	(218,000)
<b>Balance, June 30, 2019</b>	<b>\$ 300,000</b>

During the year ended March 31, 2019, the Company terminated its acquisition agreement with CN Pharma and simultaneously entered into a settlement agreement to receive a portion of its investment for a total of \$900,000 to be received in three instalments over the next six months. As of June 30, 2019, \$300,000 is recognized within loans receivable and has been subsequently received.

There is no interest charged or security held on each of these loans.

### 10. DISCONTINUED OPERATIONS

During the year ended March 31, 2019, the Company divested three of its wholly owned subsidiaries Azure, BSPG and Kure. Operational activities related to these entities have been separated disclosed in the condensed consolidated interim statements of loss and comprehensive loss. Losses from the date of acquisition to the end of the three months ended June 30, 2018 are summarized as follows for each entity:

	<b>Income (loss) from discontinued operations</b>		<b>Translation adjustment attributable to discontinued operations</b>		<b>Total loss and comprehensive loss from discontinued operations</b>
Azure Bottling LLC	\$ (45,068)	\$	(218,411)	\$	(263,479)
Kure Corp.	51,697		1,067,351		1,119,048
BSPG Laboratories Ltd	43,120		(136,666)		(93,546)
	<b>\$ 49,749</b>	<b>\$</b>	<b>712,274</b>	<b>\$</b>	<b>762,023</b>

For the periods from acquisition to June 30, 2018, the cash flow information has been presented for each of the discontinued operations as follows:

		<b>Azure</b>		<b>Kure</b>		<b>BSPG</b>
		For the period from May 4, 2018 to June 30, 2018		For the period from May 1, 2018 to June 30, 2018		For the period from April 17, 2018 to June 30, 2018
Net cash flows provided by (used in) operating activities	\$	(1,585,702)	\$	26,906	\$	(618,451)
Net cash flows used in investing activities		(310,450)		(224,953)		-
Net cash flows provided by (used in) financing activities		2,059,635		(1,041,273)		734,052
Effect of exchange rate changes		(218,411)		1,067,351		(136,666)
Net cash flows provided by (used in) discontinued operations	<b>\$</b>	<b>(54,928)</b>	<b>\$</b>	<b>(171,969)</b>	<b>\$</b>	<b>(21,065)</b>

There were no discontinued operations for the three months ended June 30, 2019.

# ISODIOL INTERNATIONAL INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended June 30, 2019

(Expressed in Canadian Dollars)

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### 10. DISCONTINUED OPERATIONS (CONTINUED)

On December 19, 2018, the Company entered into a share exchange and plan of arrangement to dispose of its 100% owned subsidiary, Azure Bottling LLC to Azure Water Bottling of Florida, LLC ("Azure Water"). Pursuant to the share exchange and plan of arrangement, the Company sold its equity to Azure Water for total proceeds of USD\$1,000,000 (received).

Set out below is the financial performance for the period from acquisition on May 4, 2018 up to June 30, 2018:

---

	For the period ended June 30, 2018
<b>Sales</b>	\$ 293,864
<b>Cost of goods sold</b>	<u>(233,191)</u>
<b>Gross profit</b>	60,673
<b>Total operating and administrative expenditures</b>	<u>(105,741)</u>
<b>Net loss for the period</b>	\$ <u>(45,068)</u>
Translation adjustment	<u>(218,411)</u>
<b>Net and comprehensive loss for the period</b>	<u>\$ (263,479)</u>



# ISODIOL INTERNATIONAL INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended June 30, 2019

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### 10. DISCONTINUED OPERATIONS (CONTINUED)

On March 29, 2019, the Company entered into a plan of arrangement to distribute all of the issued and outstanding shares of Kure Corp. to the former Kure shareholders, and, in consideration for the Kure Shares, Isodiol was absolved of its February 1, 2019 obligation to issue to the former Kure shareholders Isodiol shares having a value of US\$25,000,000 and US \$10,000,000.

Set out below is the financial performance for the period from acquisition on May 1, 2018 up to June 30, 2018:

---

	For the period ended June 30, 2018
<b>Sales</b>	\$ 1,690,031
<b>Cost of goods sold</b>	<u>(652,834)</u>
<b>Gross profit</b>	1,037,197
<b>Total operating and administrative expenditures</b>	<u>(985,500)</u>
<b>Net income for the period</b>	\$ <u>51,697</u>
Translation adjustment	<u>1,067,351</u>
<b>Net and comprehensive income for the period</b>	<u>\$ 1,119,048</u>

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# ISODIOL INTERNATIONAL INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended June 30, 2019

(Expressed in Canadian Dollars)

### 10. DISCONTINUED OPERATIONS (CONTINUED)

On March 29, 2019, the Company entered into a definitive purchase agreement to sell its 100% owned subsidiary, BSPG Laboratories Limited to a UK private equity group. As a part of the transaction, Isodiol has secured an off-take supply agreement with the buyer to ensure continued distribution of its Purodiol and Isodiolex products.

Pursuant to the sale, cash payments to Isodiol will be as follows:

- a) US\$2,000,000 on or before March 31, 2019 (received);
- b) US\$3,000,000 on or before April 4, 2019 (received);
- c) US\$5,000,000 is due by June 26, 2019 (USD\$4.75M received),
- d) US\$2,000,000 is due by September 26, 2019, and
- e) US\$2,000,000 is due by September 2020

Payments to Isodiol, are net of USD\$4,500,000 being the remaining acquisition payments relating to the Company's acquisition of BSPG.

Set out below is the financial performance for the period from acquisition on May 4, 2018 up to June 30, 2018:

	For the period ended June 30, 2018
<b>Sales</b>	\$ 1,055,164
<b>Cost of goods sold</b>	<u>(237,485)</u>
<b>Gross profit</b>	817,679
<b>Total operating and administrative expenditures</b>	<u>(774,559)</u>
<b>Net income for the period</b>	\$ <u>43,120</u>
Translation adjustment	<u>(136,666)</u>
<b>Net and comprehensive loss for the period</b>	<u>\$ (93,546)</u>

# ISODIOL INTERNATIONAL INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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(Expressed in Canadian Dollars)

### 11. LOANS PAYABLE

On August 30, 2018, the Company received a USD\$1,000,000 loan from a previous director of the Company and a USD\$900,000 loan from the previous President of ISO International LLC. The loans are due on demand at 2% interest per month, plus an upfront interest charge of \$100,000 at the outset of the loans. On April 4, 2019, the Company settled these loans for total payment of \$2,906,033 which included interest of \$362,561 (2018 - \$nil).

### 12. LEASE LIABILITY

Balance, April 1, 2019, on adoption of IFRS 16	\$	796,596
Interest expense		14,901
Lease payments		(99,807)
Balance, June 30, 2019	\$	711,690
Lease liability, current	\$	254,719
Lease liability, non-current		456,971
	\$	711,690

The Company's lease liabilities are summarized as follows:

- i) Escondido office premises expires April 1, 2021, with monthly rent of USD\$13,222
- ii) The Company holds three separate Arizona lease premises, with monthly rent and expiry details as follows:
  - a. Expires August 1, 2021, with monthly rent of USD\$2,078;
  - b. Expires December 1, 2021, with monthly rent of USD\$4,547; and
  - c. Expires May 1, 2021, with monthly rent of USD\$5,100.

### 13. CONVERTIBLE DEBT

On November 30, 2018, the Company completed a convertible debt financing for proceeds of \$6,000,000. The convertible debenture's are unsecured, bear interest at a rate of 8% per year, mature on November 29, 2020 and are convertible into common shares of the Company at a price of \$2.15 per common share.

In the event of a pending change in control, or merger, the convertible debt lender will have the right to require the borrower to (i) purchase the convertible debt at 104% of the then outstanding principal plus any unpaid interest thereon, (ii) if the change in control or merger results in a new issuer, convert the debt into a replacement debt of the new issuer in the amount that is 104% of the principle amount then outstanding on substantially equivalent terms, or (iii) convert the debentures at the conversion price. In addition, the Company will have the right to compel the conversion of the Convertible Debentures in the event that the daily volume weighted average trading price of the common shares exceeds \$3.00 per Common Share for 20 consecutive trading days after December 31, 2019.

In addition, the Company granted 233 Common Share purchase warrant ("Warrants") for each \$1,000 underlying the Convertible Debentures for a total of 1,398,000 warrants. Each Warrant will be exercisable into one Common Share at an exercise price of \$2.75 for a period of 24 months.

The convertible debentures are accounted for as compound financial instruments, consisting of a debt instrument, an equity conversion feature and warrant. The fair value of the debt instrument was estimated using 15% representing the interest rate that would be applicable to a non-compound debt instrument. The debt is carried at amortized cost and amortized over the life of the debt using the effective interest method. The excess of the proceeds over the value assigned to the debt instrument was proportionately allocated to the equity component of the convertible debentures and the warrant. The following table summarizes the Company's convertible debentures as at June 30, 2019:

<b>Balance, March 31, 2019</b>	\$	5,189,960
Amortization of debt (included in interest expense)		91,903
Balance, June 30, 2019	\$	5,281,863

# ISODIOL INTERNATIONAL INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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### 14. SHARE CAPITAL

a) Authorized share capital

Unlimited number of common without par value.

b) Issued share capital

On July 24, 2018, the Company completed a share consolidation of its share capital on the basis of ten existing common shares for one new common share.

All information in these condensed consolidated interim financial statements is presented on a post-share consolidation basis, including the number and exercise price of all share options and warrants.

Changes in the issued common shares of the Company during the three months ended June 30, 2019, were as follows:

- i) On May 13, 2019, the Company completed a private placement by issuing 521,259 units at a price of USD\$1.04 per common share for total proceeds of USD\$500,000, of which USD\$200,000 is included in subscriptions receivable. Each unit consists of one common share.
- ii) On May 16, 2019, 2018, the Company issued 523,851 common shares measured at a fair value of \$1.19 per share to settle accounts payable. The shares were measured as of the date of agreement;
- iii) On February 14, 2019, the Company entered into an acquisition agreement with CBD Naturals beverage brands and intellectual property portfolio from the Company's co-founder, Jared Berry.

On May 13, 2019, the Company issued an aggregate number of shares of its common stock equal to USD\$8,500,000 for a total of 8,860,895 shares; however, these shares are currently held internally and pursuant to the notice of termination on July 18, 2019, the Company is in the process of unwinding the transactions and cancelling the issuance of these shares.

c) Escrow shares

On September 18, 2015, the Company entered into a stock restriction agreement whereby 300,000 common shares were placed into escrow. These shares were released from escrow beginning on September 21, 2016 as to 30,000 shares and an additional 45,000 shares every 6 months thereafter until September 21, 2019. As at June 30, 2019, 45,000 common shares were held in escrow.

d) Warrants

The continuity of warrants for the three months ended June 30, 2019 is summarized below:

	Number	Weighted Average Exercise Price
Balance, March 31, 2019	10,338,664	\$9.41
Expired	(2,276,868)	\$2.50
Balance, June 30, 2019	8,061,796	\$11.36

# ISODIOL INTERNATIONAL INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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### 14. SHARE CAPITAL (CONTINUED)

#### d) Warrants (continued)

At June 30, 2019, the Company had 8,061,796 share purchase warrants outstanding. Each warrant entitles the holder the right to purchase one common share as follows:

Number	Price	Expiry Date
358,441	\$7.50	September 12, 2019
1,708,000	\$20.00	December 21, 2019
87,224	\$6.80	December 31, 2019
2,465,753	\$10.00	May 25, 2021
826,000	\$20.00	January 2, 2020
1,398,000	\$2.75	November 30, 2020
1,218,378	\$7.50	December 4, 2020
<b>8,061,796</b>		

As at June 30, 2019, the weighted average remaining contractual life of all warrants outstanding was 1.21 years.

#### e) Stock options

The Company has an incentive stock option plan in place under which it is authorized to grant options to directors, officers, employees and consultants to acquire up to 10% of the Company's issued and outstanding common shares. Under the plan, the exercise price of each option may not be less than the market price of the Company's stock as calculated on the date of grant less the applicable discount, subject to a minimum exercise price of \$1.00. The options can be granted for a maximum term of 5 years and vesting periods are determined by the Board of Directors. Pursuant to the regulations of the CSE, stock options may be granted outside of the stock option plan.

The continuity of options for the three months ended June 30, 2019, is summarized below:

	Number	Weighted Average Exercise Price
Outstanding and exercisable, March 31, 2019	1,175,000	\$2.60
Expired	(660,000)	\$2.00
<b>Outstanding and exercisable, June 30, 2019</b>	<b>515,000</b>	<b>\$3.37</b>

At June 30, 2019, 515,000 share purchase options were outstanding and exercisable entitling the holders thereof the right to purchase one common share for each option held as follows:

Number	Exercise Price	Expiry Date
373,000	\$3.15	September 1, 2019
142,000	\$3.95	September 14, 2023
<b>515,000</b>		

The weighted average remaining life for the options outstanding and exercisable at June 30, 2019 is 1.29 years.

# ISODIOL INTERNATIONAL INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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### 15. RELATED PARTY DISCLOSURES

Key management personnel are the directors and officers of the Company. Management compensation transactions for the three months ended June 30, 2019 and 2018 are summarized as follows:

	June 30, 2019	June 30, 2018
Management fees	\$ 107,850	\$ 335,272
Share based payments	-	300,000
<b>Total</b>	<b>\$ 107,850</b>	<b>\$ 635,272</b>

Included in accounts payable and accrued liabilities at June 30, 2019, are \$12,500 due directors and officers of the Company (2018 - \$61,055)

During the three months ended June 30, 2019, the Company paid \$nil (2018 - \$204,160) included in management fees to the CEO and Director of the Company pursuant to CEO and Director services provided.

During the three months ended June 30, 2019, the Company paid \$37,500 (2018 - \$nil) included in management fees to the CFO pursuant to CFO services provided.

During the three months ended June 30, the Company paid \$70,350 (2018 - \$nil) included in consulting fees to a company controlled by a previous Director of the Company pursuant to Director services provided.

	June 30, 2019	March 31, 2019
Due to companies with a common officer of the Company	29,178	685,803
<b>Total due to related party</b>	<b>\$ 29,178</b>	<b>\$ 685,803</b>

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### 16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

#### Financial Instruments

The classification of the financial instruments as well as their carrying values are shown in the table below:

		June 30, 2019	March 31, 2019
<b>Financial Assets</b>			
Cash	Fair Value through Profit and Loss	\$ 3,173,071	\$ 403,814
Trade receivables and promissory notes receivable	Amortized cost	4,503,444	12,711,819
Investments	Fair value through profit and loss	1,266,656	2,470,020
Loans receivables	Amortized cost	300,000	518,000
Long term receivables	Amortized cost	2,246,600	2,162,600
<b>Total Financial Assets</b>		<b>\$ 11,489,771</b>	<b>\$ 18,266,253</b>
<b>Financial Liabilities</b>			
Accounts payable and accrued liabilities	Amortized cost	\$ 5,754,491	\$ 5,536,494
Due to related parties	Amortized cost	29,178	685,625
Loans payable	Amortized cost	-	2,906,033
Lease liability (current and long term)	Amortized cost	711,690	-
Convertible debt	Amortized cost	5,281,863	5,189,960
<b>Total Financial Liabilities</b>		<b>\$ 11,777,222</b>	<b>\$ 14,318,112</b>

# ISODIOL INTERNATIONAL INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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### 16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

#### Financial Instruments (continued)

The Company has classified fair value measurements of its financial instruments using a fair value hierarchy that reflects the significance of inputs used in making the measurements as follows:

Level 1: Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates; and

Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

At June 30, 2019, cash is measured using Level 1 inputs. At June 30, 2019, the Company held \$732,080 in investments measured at Level 1 and \$534,520 at Level 2. During the three months ended June 30, 2019, there were no transfers between Level 1 and Level 2 fair value measurements and there were no transfers in and out of Level 3 fair value measurements.

The fair values of the Company's financial assets and liabilities approximate their carrying amounts. The carrying value of receivables and accounts payable, acquisitions payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments. The carrying value of loans payable approximate their carrying value based on currently available borrowing rates for debt on similar terms, credit risk and maturities. The Fair value of convertible debt is measured using a discount factor of 15% which approximates the borrowing rate that the Company would get for debt without a conversion feature and warrants.

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

#### Financial risk factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

##### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2019, the Company had a cash balance of \$3,173,071 to settle current liabilities of \$8,357,380. The Company is currently investigating financing opportunities so that it has sufficient liquidity to meet liabilities when due.

There can be no assurance the Company will be able to obtain required financing in the future on acceptable terms. The Company anticipates it will need additional capital in the future to finance on-going exploration of its properties, such capital to be derived from the completion of other equity and debt financings. The Company has limited financial resources, is currently generating net losses from operations, and has no assurance that additional funding will be available to it for future development of its business. The ability of the Company to arrange additional financing in the future will depend, in part, on the prevailing capital market conditions. In recent years, the securities markets have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. Any quoted market for the common shares may be subject to market trends generally, notwithstanding any potential success of the Company in creating revenue, cash flows or earnings.



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### 16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

#### Financial Instruments (continued)

#### Financial risk factors (continued)

##### *Credit risk*

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and accounts receivable.

The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality financial institutions. Receivables primarily consist of GST receivable from the Government of Canada, trade receivables due from merchant accounts, proceeds from the sale of BSPG and promissory notes receivable.

The Company's maximum exposure to credit risk related to certain financial instruments as identified below, approximate the carrying value of these assets on the Company's consolidated statements of financial position, with the exception of the long term receivable which is carried at amortized cost:

	June 30, 2019	March 31, 2019
Cash	\$ 3,173,071	\$ 15,549,664
Receivables		
Trade receivables, net	1,622,880	1,039,937
Proceeds on sale of BSPG	2,196,879	-
Promissory note receivable	683,685	-
Subscriptions receivable	-	7,000
<i>Long term receivable on sale of BSPG</i>	2,246,600	-
	<u>\$ 9,923,115</u>	<u>\$ 16,596,601</u>

##### *Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and equity prices. The Company does not have a practice of trading derivatives.

a) Interest rate risk

The Company's financial assets exposed to interest rate risk consist of cash. The Company's policy will be to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company is satisfied with the credit ratings of its banks. As at June 30, 2019, the Company did not have any investments in investment-grade short-term deposit certificates.

b) Foreign currency risk

The Company's foreign exchange risk arises from transactions denominated in other currencies.

### 17. CAPITAL MANAGEMENT

The Company considers capital to be the elements of shareholders' equity and convertible debt. The Corporation's objectives when managing capital include (i) ensuring that the Corporation is able to meet its financial obligations as they become due, whilst ensuring compliance with all applicable debt covenants; (ii) ensuring that the Corporation has sufficient capital to manage business activities in each of its operating segments; (iii) ensuring that the Corporation has sufficient capital available to benefit from acquisition opportunities, should they arise; (iv) ensuring that the Corporation and all of its regulated entities meet relevant regulatory capital requirements; and (v) ensuring adequate returns for shareholders. The Corporation regularly assesses its capital management practices in response to changing economic conditions. The Company does not presently utilize any quantitative measures to monitor its capital and is not subject to externally imposed capital requirements.

# ISODIOL INTERNATIONAL INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended June 30, 2019

(Expressed in Canadian Dollars)

### 18. SEGMENTED REPORTING

The Company has two operating segments and generates external revenues from the sale of nutritional health products derived from hemp. The operating segments have been disclosed by geographical region as follows:

	Assets	Revenue	Loss from continuing operations
Canada	\$ 9,398,693	\$ -	\$ (414,871)
United States	8,257,393	4,219,571	(2,410,221)
	\$ 17,656,086	\$ 4,219,571	\$ (2,825,092)

### 19. COMMITMENTS

The Company has entered into various agreements that have resulted in the minimum financial commitments payable over the next three fiscal years as follows:

Commitment	2019	2020
Rent Canada	\$ 243,000	\$ -
Rent United States	268,000	358,000
<b>Total</b>	<b>\$ 511,000</b>	<b>\$ 358,000</b>

### 20. SUPPLEMENTAL CASH FLOW INFORMATION

Investing and financing activities that do not have a direct impact on cash flows are excluded from the statement of cash flows.

During the three months ended June 30, 2019:

- i) On May 16, 2019, 2018, the Company issued 523,851 common shares measured at a fair value of \$1.19 per share to settle accounts payable;
- ii) On February 14, 2019, the Company entered into an acquisition agreement with CBD Naturals beverage brands and intellectual property portfolio from the Company's co-founder, Jared Berry.

On May 13, 2019, the Company issued an aggregate number of shares of its common stock equal to USD\$8,500,000 for a total of 8,860,895 shares; however, these shares are currently held internally and pursuant to the notice of termination on July 18, 2019, the Company is in the process of unwinding the transactions and cancelling the issuance of these shares.