



ISODIOL INTERNATIONAL INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended December 31, 2019

(Expressed in Canadian Dollars)

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 nine months ended December 31, 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	December 31, 2019 (unaudited)	March 31, 2019 (audited)
ASSETS		
Current		
Cash	\$ 239,813	\$ 403,814
Prepaid expenses and deposits	472,872	2,203,545
Receivables (Note 6)	2,179,915	13,384,540
Inventory (Note 7)	2,557,449	858,640
Investments (Note 8)	1,266,600	2,470,020
Loans receivable (Note 9)	-	518,000
	<u>6,716,649</u>	<u>19,838,559</u>
Long term receivable (Note 6)	2,414,600	2,162,600
Fixed assets (Note 4)	1,052,666	1,267,925
Leasehold improvements (Note 4)	296,554	348,889
Right-of use asset (Note 5)	<u>548,001</u>	<u>-</u>
Total Assets	<u>\$ 11,028,470</u>	<u>\$ 23,617,973</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 3,199,351	\$ 5,536,494
Due to related parties (Note 15)	52,178	685,803
Loans payable (Notes 11)	-	2,906,033
Lease liability (Note 12)	169,813	-
Deferred revenue	<u>2,345,338</u>	<u>2,366,785</u>
	<u>5,766,680</u>	<u>11,495,115</u>
Convertible debt (Note 13)	5,219,124	5,189,960
Lease liability (Note 12)	<u>456,971</u>	<u>-</u>
	<u>11,442,775</u>	<u>16,685,075</u>
Shareholders' equity		
Share capital (Note 14)	178,320,102	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	(629,725)	531,774
Accumulated Deficit	<u>(182,663,334)</u>	<u>(175,809,960)</u>
Total shareholder's equity	<u>(414,305)</u>	<u>6,932,898</u>
Total Liabilities and Shareholder's Equity	<u>\$ 11,028,470</u>	<u>\$ 23,617,973</u>

Nature of operations and going concern (Note 1)

Commitments (Note 19)

Approved and authorized by the Board on March 2, 2020:

"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 December 31, 2019	For the three months ended December 31, 2018	For the nine months ended December 31, 2019	For the nine months ended December 31, 2018
Sales	\$ 1,324,612	\$ 9,273,909	\$ 7,422,478	\$ 13,878,770
Cost of goods sold	(835,077)	(5,163,899)	(5,452,084)	(7,509,752)
Gross profit	489,535	4,110,010	1,970,394	6,369,018
Operating Expenses				
Consulting fees	90,233	1,374,225	191,596	2,350,708
Wages & Salaries	406,918	3,508,998	1,888,340	4,948,242
Commissions	163,400	-	825,653	-
Advertising & promotions	450,781	1,308,919	1,788,360	2,146,933
Merchant fees	-	-	43,304	-
Research & development	-	88,223	-	96,952
Filing and transfer agent fees	4,581	39,919	103,406	135,282
Investor relations	18,000	276,832	54,000	441,709
Management fees (Note 15)	207,730	546,732	390,580	1,041,359
General and administration	32,229	1,684,672	1,125,587	2,197,521
Insurance	62,790	12,409	66,668	14,492
Professional fees	100,977	1,089,522	575,318	2,146,022
Rent	155,372	359,490	507,459	546,688
Amortization (Note 4)	89,198	1,636,457	267,594	2,590,084
Travel and promotions	85,784	99,984	280,751	2,699,336
Share based compensation	-	781,540	-	1,472,211
Acquisition advisory fees	-	632,000	-	632,000
Website expenses	-	2,395	-	9,242
Total operating expenses	(1,867,993)	(13,442,317)	(8,108,616)	(23,468,781)
Loss before other items	(1,378,458)	(9,332,307)	(6,138,222)	(17,099,763)
Other income (expense)				
Gain (loss) on exchange rate	213	(192,341)	(5,027)	(252,482)
Bad debt recovery (expense) (Note 6)	500,000	(3,299)	(609,486)	(3,320)
Interest expense (Note 12 and 13)	(175,777)	(66,369)	(355,880)	(82,486)
Impairment of assets	-	(12,254,026)	-	(12,254,026)
Interest income (Note 6)	84,000	-	255,241	-
Net loss before discontinued operations	\$ (970,022)	\$ (21,848,342)	\$ (6,835,374)	\$ (29,692,077)
Net loss from discontinued operations, net of tax	-	(136,271)	-	(908,656)
Net loss for the period	\$ (970,022)	\$ (21,984,613)	\$ (6,835,374)	\$ (30,600,733)
Translation adjustment, attributable to:				
Continuing operations	(297,656)	(413,527)	(1,161,499)	(99,748)
Discontinued operations	-	863,728	-	882,555
Net and comprehensive loss for the period	\$ (1,267,678)	\$ (21,534,412)	\$ (8,014,873)	\$ (29,817,926)
Basic and diluted loss per common share	\$ (0.02)	\$ (0.54)	\$ (0.14)	\$ (0.79)
Basic and diluted loss per common share, continuing operations	(0.02)	(0.55)	(0.14)	(0.82)
Basic and diluted loss per common share, discontinued operations	-	(0.00)	-	(0.02)
Weighted average number of common shares outstanding	49,137,282	40,117,084	48,755,282	37,500,803

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				Reserves			Accumulated other comprehensive income	Deficit	Total
	Number	Amount	Subscriptions	Equity portion of convertible debt	Warrants	Share Obligations and share- based payments				
Balance, March 31, 2018	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	17,119,217	(2,200,001)	-	-	-	-	-	14,919,216	
Shares issued pursuant to options exercised	557,000	1,133,550	-	-	-	-	-	-	1,133,550	
Shares issued pursuant to licensing agreement	611,134	3,147,491	-	-	-	-	-	-	3,147,491	
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	
Share based payments and shares issued for services	876,659	2,937,981	-	-	-	483,545	-	-	3,421,526	
Convertible debt	-	-	-	606,624	130,616	-	-	-	737,240	
Foreign currency translation adjustment	-	-	-	-	-	-	782,780	-	782,780	
Net loss for the period	-	-	-	-	-	-	-	(30,600,733)	(30,600,733)	
Balance, December 31, 2018	40,521,454	\$ 164,415,320	\$ (2,200,001)	\$ 606,624	\$ 1,106,992	\$ 7,170,400	\$ 642,833	\$ (80,497,679)	\$ 91,244,489	
Subscription received	-	-	400,890	-	-	-	-	-	400,890	
Shares issued pursuant to options exercised	100,000	2,003,403	-	-	-	(1,853,403)	-	-	150,000	
Shares issued pursuant to licensing agreement	500,000	735,000	-	-	-	-	-	-	735,000	
Share-based payments and shares for services	6,724,813	9,825,859	-	-	-	-	-	-	9,825,859	
Foreign currency translation adjustment	-	-	-	-	-	-	(111,059)	-	(111,059)	
Net loss for the period	-	-	-	-	-	-	-	(95,312,281)	(95,312,281)	
Balance, March 31, 2019	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)	769,756	667,670	-	-	-	-	-	-	667,670	
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	-	-	-	-	-	-	(1,161,499)	-	(1,161,499)	
Net loss for the period	-	-	-	-	-	-	-	(6,853,374)	(6,853,374)	
Balance, December 31, 2019	49,137,282	\$ 178,320,102	\$ (2,471,961)	\$ 606,624	\$ 1,106,992	\$ 5,316,997	\$ (629,725)	\$ (182,663,334)	\$ (414,305)	

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 nine months ended December 31, 2019	For the nine months ended December 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss from continuing operations	\$ (6,853,374)	\$ (29,692,077)
Loss from discontinued operations	-	(908,656)
	<u>\$ (6,853,374)</u>	<u>\$ (30,600,733)</u>
Items not involving cash:		
Shares issued for services	-	2,482,981
Shares issued for finder's fees	-	210,000
Share based payments	-	483,545
Fair value adjustment on long-term receivable	(252,000)	-
Interest accrual	277,727	47,424
Amortization	267,594	2,590,084
Right-of use asset amortization	248,595	-
Lease liability interest accrual	14,901	-
Impairment of asset	-	12,254,026
Bad debt	609,486	-
Changes in non-cash working capital items:		
Receivables	10,595,139	(4,798,945)
Prepaid expenses and deposits	1,730,673	(3,944,201)
Inventory	(1,698,809)	(5,033,163)
Related parties receivable	-	1,650,860
Accounts payable and accrued liabilities	(1,669,473)	(4,448,939)
Related parties payable	(633,625)	(512,472)
Income taxes payable	-	(139,711)
Differed income tax payable	-	31,660
Deferred Revenues	(21,447)	(203,630)
	<u>2,615,387</u>	<u>(29,931,214)</u>
Cash provided/(used) by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash received on acquisitions	-	-
Investment (Note 8)	1,203,420	(1,995,931)
Acquisition deposits	-	6,979,273
Fixed assets	-	(5,704,346)
Leasehold improvements	-	(606,890)
Intangible assets	-	(6,076,039)
Acquisition payable	-	(2,292,375)
Loans receivable	518,000	433,845
	<u>1,721,420</u>	<u>(9,262,463)</u>
Cash provided/(used) by investing activities		
CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES		
Proceeds from issuance of common shares (Note 14)	-	15,799,999
Share issue costs (Note 14)	-	(880,783)
Proceeds from options exercised	-	1,133,550
Proceeds from warrants exercised	-	192,584
Proceeds from convertible debt	-	6,000,000
Repayment of convertible debt	(248,563)	-
Proceeds from loans	-	2,592,434
Payment of lease liability (Note 12)	(184,713)	-
Repayment of loans (Note 11)	(2,906,033)	(58,830)
	<u>(3,339,309)</u>	<u>24,778,954</u>
Cash provided/(used) by financing activities		
Effect of exchange rate changes	(1,161,499)	1,367,520
Change in cash during the period	(164,001)	(13,047,203)
Cash, beginning of period	403,814	15,549,664
Cash, end of period	\$ 239,813	\$ 2,502,461
Cash paid during the period for interest	\$ (547,274)	\$ (62,399)
Cash paid during the period for income tax	\$ -	\$ -

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 nine months ended December 31, 2019

(Expressed in Canadian Dollars)

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 nine months ended December 31, 2019, the Company's operations did not generate positive cash flows, the Company incurred a net loss from continuing operations of \$6,853,374 (2018 - \$29,692,077) and the Company had an accumulated deficit of \$182,663,334 (2019 - \$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 March 2, 2020.

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 nine months ended December 31, 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 nine months ended December 31, 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 December 31, 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
World 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 nine months ended December 31, 2019

(Expressed in Canadian Dollars)

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 operates 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 the 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 nine months ended December 31, 2019

(Expressed in Canadian Dollars)

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.

Changes in significant accounting policies and adoption of new accounting standards

The following new accounting policies were adopted during the nine months ended December 31, 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:

- 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;
- 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
- Recording the cumulative difference to deficit;

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

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.

ISODIOL INTERNATIONAL INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended December 31, 2019

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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. IFRIC 23 is effective for the Company's current annual period retrospectively and the adoption did not have a significant impact on the Company's condensed consolidated interim financial statements for the nine months ended December 31, 2019.

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4. FIXED ASSETS

	Office equipment	Computer equipment	Vehicles	Total Equipment	Leasehold Improvements
Cost					
Balance, March 31, 2019	\$ 1,396,328	\$ 237,073	\$ 80,023	\$ 1,713,424	\$ 486,166
Additions	-	-	-	-	-
Balance, December 31, 2019	\$ 1,396,328	\$ 237,073	\$ 80,023	\$ 1,713,424	\$ 486,166
Accumulated depreciation					
Balance, March 31, 2019	\$ 295,940	\$ 141,555	\$ 8,004	\$ 445,499	\$ 137,277
Amortization for the period	165,057	39,399	10,803	215,259	52,335
Balance, December 31, 2019	\$ 460,997	\$ 180,954	\$ 18,807	\$ 660,758	\$ 189,612
Carrying amounts					
As at March 31, 2019	\$ 1,100,388	\$ 95,518	\$ 72,019	\$ 1,267,925	\$ 348,889
As at December 31, 2019	\$ 935,331	\$ 56,119	\$ 64,817	\$ 1,052,666	\$ 296,554

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%.

Cost	
Balance, April 1, 2019, on adoption of IFRS 16	\$ 796,596
Accumulated depreciation	
Balance, April 1, 2019	-
Depreciation	248,595
Balance, December 31, 2019	248,595
Carrying amount, December 31, 2019	548,001

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6. RECEIVABLES

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

	December 31, 2019	March 31, 2019
Sales tax recoverable*	\$ 78,352	\$ 672,721
Trade receivables, net	686,377	2,815,680
Proceeds on sale of BSPG (note 10)	731,500	9,212,454
Promissory note receivable**	683,685	683,685
<i>Accounts receivable</i>	<u>2,179,915</u>	<u>13,384,540</u>
 <i>Long term receivable on sale of BSPG (note 10)</i>	 2,414,600	 2,162,600
	<u>\$ 4,594,515</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 nine months ended December 31, 2019, the Company recognized bad debts expense recovery of \$500,000 (2018 – bad debt expense \$3,280). Bad debt expense consists of the current period allowance for doubtful accounts of \$609,486 (2018 - \$nil) over its trade receivables.

During the nine months ended December 31, 2019, the Company recognized amortization of long-term receivable of \$252,000 (2018 – \$nil) recognized within interest income.

7. INVENTORY

As at December 31, 2019, the Company's inventory balance consists of finished good merchandise ready for sale. During the nine months ended December 31, 2019, the Company expensed \$5,452,084 of inventory included within cost of goods sold.

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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)
Balance, December 31, 2019	\$ 732,080	\$ 534,520	\$ 1,266,600

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 December 31, 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 periods.

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 December 31, 2019, the Company recognizes \$107,064 as shares held internally and its value is eliminated on consolidation.

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9. LOANS RECEIVABLE

	Canadian National Pharma Group Inc.
Balance, March 31, 2019	\$ 518,000
Cash received on sale	(518,000)
Balance, December 31, 2019	\$ nil

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 December 31, 2019, all amounts have been received.

There was 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 nine months ended December 31, 2018 are summarized as follows for each entity:

	Income (loss) from discontinued operations	Translation adjustment attributable to discontinued operations	Total loss and comprehensive loss from discontinued operations
Azure Bottling LLC	\$ (601,921)	\$ (11,332)	\$ (613,253)
Kure Corp.	157,012	1,292,273	1,449,285
BSPG Laboratories Ltd	(645,803)	(111,853)	(757,656)
	\$ (1,090,712)	\$ 1,169,088	\$ 78,376

For the periods from acquisition to December 31, 2018, the cash flow information has been presented for each of the discontinued operations as follows:

	Azure For the period from May 4, 2018 to December 19, 2018	Kure For the period from May 1, 2018 to December 31, 2018	BSPG For the period from April 17, 2018 to December 31, 2018
Net cash flows provided by (used in) operating activities	\$ (451,779)	\$ 388,495	\$ 169,640
Net cash flows used in investing activities	(331,194)	(1,376,244)	(427,797)
Net cash flows provided by (used in) financing activities	735,216	(1,205,092)	1,259,706
Effect of exchange rate changes	(11,332)	1,292,273	(111,853)
Net cash flows provided by (used in) discontinued operations	\$ (59,089)	\$ (900,568)	\$ 889,696

There were no discontinued operations for the nine months ended December 31, 2019.

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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 December 19, 2018:

	For the period ended December 19, 2018
Sales	\$ 1,443,526
Cost of goods sold	<u>(862,726)</u>
Gross profit	580,800
Total operating and administrative expenditures	<u>(1,000,666)</u>
Net loss for the period	\$ <u>(419,866)</u>
Translation adjustment	<u>(297,864)</u>
Net and comprehensive loss for the period	\$ <u>(717,730)</u>

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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 December 31, 2018:

	For the period ended December 31, 2018
Sales	\$ 7,063,521
Cost of goods sold	<u>(2,419,224)</u>
Gross profit	4,644,297
Total operating and administrative expenditures	<u>(4,487,285)</u>
Net income for the period	\$ <u>157,012</u>
Translation adjustment	<u>1,292,273</u>
Net and comprehensive income for the period	<u>\$ 1,449,285</u>

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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 (received),
- d) US\$2,000,000 is due by September 26, 2019 (partially received), and
- e) US\$2,000,000 is due by September 2020

Payments to Isodiol, are net of USD\$2,550,000 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 December 31, 2018:

	For the period ended December 31, 2018
Sales	\$ 2,007,729
Cost of goods sold	<u>(1,061,024)</u>
Gross profit	946,705
Total operating and administrative expenditures	<u>(1,592,508)</u>
Net income for the period	\$ <u>(645,803)</u>
Translation adjustment	<u>(111,853)</u>
Net and comprehensive loss for the period	<u>\$ (757,656)</u>

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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		(184,713)
Balance, December 31, 2019	\$	626,784
Lease liability, current	\$	169,813
Lease liability, non-current		456,971
	\$	626,784

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 debentures 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 December 31, 2019:

Balance, March 31, 2019	\$	5,189,960
Amortization of debt (included in interest expense)		277,727
Repayment of interest		(248,563)
Balance, December 31, 2019	\$	5,219,124

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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.

The Company has 48,891,377 common shares issued and outstanding, with an additional 428,254 common shares held by a wholly owned subsidiary of the Company and 8,860,896 held for cancellation.

Changes in the issued common shares of the Company during the nine months ended December 31, 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.

- iv) On December 3, 2019, the Company issued 245,905 common shares measured at a fair value of \$0.18 per share to settle accounts payable. The shares were measured as of the date of agreement;

c) Warrants

The continuity of warrants for the nine months ended December 31, 2019 is summarized below:

	Number	Weighted Average Exercise Price
Balance, March 31, 2019	10,338,664	\$9.41
Expired	(4,430,533)	\$9.74
Balance, December 31, 2019	5,908,131	\$9.17

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14. SHARE CAPITAL (CONTINUED)

d) Warrants (continued)

At December 31, 2019, the Company had 5,908,131 share purchase warrants outstanding. Each warrant entitles the holder the right to purchase one common share as follows:

Number	Price	Expiry Date
2,465,753	\$10.00	May 25, 2021
1,218,378	\$7.50	December 4, 2020
1,398,000	\$2.75	November 30, 2020
826,000	\$20.00	January 2, 2020
5,908,131		

As at December 31, 2019, the weighted average remaining contractual life of all warrants outstanding was 1.50 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 nine months ended December 31, 2019, is summarized below:

	Number	Weighted Average Exercise Price
Outstanding and exercisable, March 31, 2019	1,175,000	\$2.60
Expired	(1,033,000)	\$2.42
Outstanding and exercisable, December 31, 2019	142,000	\$3.95

At December 31, 2019, 142,000 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
142,000	\$3.95	September 14, 2023
142,000		

The weighted average remaining life for the options outstanding and exercisable at December 31, 2019 is 3.71 years.

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15. RELATED PARTY DISCLOSURES

Key management personnel are the directors and officers of the Company. Management compensation transactions for the nine months ended December 31, 2019 and 2018 are summarized as follows:

	December 31, 2019	December 31, 2018
Management fees	\$ 239,100	\$ 1,041,359
Share based payments	-	1,205,131
Total	\$ 239,100	\$ 2,061,392

Included in accounts payable and accrued liabilities at December 31, 2019, are \$32,450 due to officers of the Company (2018 - \$12,500).

During the nine months ended December 31, 2019, the Company paid \$148,971 (2018 - \$304,200) included in management fees to the CEO and Director of the Company pursuant to CEO and Director services provided.

During the nine months ended December 31, 2019, the Company paid \$112,500 (2018 - \$68,750) included in management fees to the CFO and corporate secretary pursuant to CFO and corporate secretary services provided.

During the nine months ended December 31, 2019, the Company paid \$59,589 (2018 - \$nil) included in management fees to the President of the Company for management services provided.

During the nine months ended December 31, 2019, the Company paid \$69,520 (2018 - \$91,432) included in consulting fees to a company controlled by a previous Director of the Company pursuant to Director services provided.

	December 31, 2019	March 31, 2019
Due to companies with a common officer of the Company	52,178	685,803
Total due to related party	\$ 52,178	\$ 685,803

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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:

		December 31, 2019	March 31, 2019
Financial Assets			
Cash	Fair Value through Profit and Loss	\$ 239,813	\$ 403,814
Trade receivables, acquisition receivable and promissory notes receivable	Amortized cost	2,101,563	12,711,819
Investments	Fair value through profit and loss	1,266,600	2,470,020
Loans receivables	Amortized cost	-	518,000
Long term receivables	Amortized cost	2,414,600	2,162,600
Total Financial Assets		\$ 6,022,576	\$ 18,266,253
Financial Liabilities			
Accounts payable and accrued liabilities	Amortized cost	\$ 3,199,351	\$ 5,536,494
Due to related parties	Amortized cost	52,178	685,625
Loans payable	Amortized cost	-	2,906,033
Lease liability (current and long term)	Amortized cost	169,813	-
Convertible debt	Amortized cost	5,219,124	5,189,960
Total Financial Liabilities		\$ 8,640,466	\$ 14,318,112

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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 December 31, 2019, cash is measured using Level 1 inputs. At December 31, 2019, the Company held \$732,080 in investments measured at Level 1 and \$534,520 at Level 2. During the nine months ended December 31, 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 December 31, 2019, the Company had a cash balance of \$239,813 to settle current liabilities of \$5,766,680. 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 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:

	December 31, 2019	March 31, 2019
Cash	\$ 239,813	\$ 403,814
Receivables		
Sales tax receivable	78,352	672,721
Trade receivables, net	686,378	2,815,680
Proceeds on sale of BSPG	731,500	9,212,454
Promissory note receivable	683,685	683,685
<i>Long term receivable on sale of BSPG</i>	2,414,600	2,162,600
	<u>\$ 4,834,328</u>	<u>\$ 15,950,954</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 December 31, 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 nine months ended December 31, 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	\$ 5,431,510	\$ -	\$ (1,247,923)
United States	5,596,960	7,422,478	(5,605,451)
	\$ 11,028,470	\$ 7,422,478	\$ (6,853,374)

19. COMMITMENTS

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

Commitment	2020	2021
Rent United States	\$ 134,000	\$ 358,000
Total	\$ 134,000	\$ 358,000

20. SUBSEQUENT EVENTS

There were no subsequent events.

21. 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 nine months ended December 31, 2019:

- i) On May 16, 2019, 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; and
- iii) On December 3, 2019, the Company issued 245,905 common shares measured at a fair value of \$0.18 per share to settle accounts payable.