
ISODIOL INTERNATIONAL INC.

(FORMERLY LAGUNA BLENDS INC.)

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2017

(Expressed in Canadian Dollars)

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p | 604.683.3277
f | 604.684.8464

SUITE 1735, TWO BENTALL CENTRE
555 BURNARD STREET
BOX 243
VANCOUVER, BC V7X 1M9



charlton & company
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Isodial International Inc. (formerly Laguna Blends Inc.)

We have audited the accompanying consolidated financial statements of Isodial International Inc. (formerly Laguna Blends Inc.), which comprise the consolidated statements of financial position as at March 31, 2017 and 2016 and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a

basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Isodiol International Inc. (formerly Laguna Blends Inc.) as at March 31, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that Isodiol International Inc. has incurred losses to date. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Charlton & Company

CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, BC
July 31, 2017

ISODIOL INTERNATIONAL INC.
(formerly LAGUNA BLENDS INC.)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

As at	March 31, 2017	March 31, 2016
ASSETS		
Current		
Cash	\$ 718,648	\$ 105,814
Prepaid expenses and deposits	59,297	35,565
Receivables (Note 6)	150,579	65,637
Inventory	430,915	277,547
Total current assets	1,359,439	484,563
Investment (Note 7)	860,955	-
Licenses (Note 8)	-	-
Furniture & Equipment (Note 5)	59,331	-
Total Assets	\$ 2,279,275	\$ 484,563
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 11)	\$ 125,328	\$ 250,643
Due to related parties (Note 11)	-	41,666
Loans payable (Notes 4, 9 and 11)	250,000	935,000
Total current liabilities	375,328	1,227,309
Shareholders' equity		
Share capital (Note 10)	14,336,816	7,907,861
Reserves (Note 10)	1,443,654	939,203
Accumulated Deficit	(13,876,073)	(9,589,810)
Total shareholder's equity	1,904,397	(742,746)
Total Liabilities and Shareholder's Equity	\$ 2,279,725	\$ 484,563

Nature of operations and going concern (Note 1)

Commitments (Note 17)

Events after the Reporting Period (Note 18)

Approved and authorized by the Board on July 31, 2017:

"Marcos Agramont"

Director

"Bryan Loree"

Director

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

ISODIOL INTERNATIONAL INC.

(formerly LAGUNA BLENDS INC.)

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Expressed in Canadian Dollars)

	For the year ended March 31, 2017	For the year ended March 31, 2016
Sales	\$ 355,959	\$ 16,785
Cost of goods sold	<u>229,243</u>	<u>(6,407)</u>
Gross profit	126,716	10,378
Operating Expenses		
Consulting fees (Note 11)	1,690,524	1,240,243
Business development	136,831	237,056
Filing and transfer agent fees	40,700	37,457
Investor relations	355,104	9,000
Management fees (Note 11)	355,144	291,450
Office and administration (Note 11)	126,822	98,148
Insurance	14,124	-
Professional fees	231,488	198,140
Rent	43,598	33,463
Share based compensation (Note 10 and 11)	130,451	309,415
Travel and promotions	379,464	20,935
Warehouse supplies	36,478	10,651
Website expenses	<u>38,984</u>	<u>356</u>
	<u>3,579,712</u>	<u>2,486,314</u>
Loss from operations	(3,452,996)	(2,475,936)
Other income (expense)		
Charges related to public company listing (Note 4)	-	(6,070,379)
Other income	-	2,342
Interest expense (Note 11)	(71,568)	(74,447)
Exchange rate gain (loss)	(12,949)	-
Impairment of licenses (Note 8)	(748,750)	-
Impairment of equipment (Note 5)	<u>-</u>	<u>(58,412)</u>
Net comprehensive loss for the year	\$ (4,286,263)	\$ (8,676,832)
Basic and diluted loss per common share	\$ (0.13)	\$ (0.59)
Weighted average number of common shares outstanding	31,770,680	14,796,079

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

ISODIOL INTERNATIONAL INC.

(formerly LAGUNA BLENDS INC.)

CONSOLIDATED STATEMENT OF CASH FLOWS

(Expressed in Canadian Dollars)

	For the year ended March 31, 2017		For the year ended March 31, 2016	
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss for the year	\$	(4,286,263)	\$	(8,676,832)
Items not involving cash:				
Shares issued for services		773,027		646,000
Share-based payments		130,451		309,415
Charge related to public company listing		-		6,070,379
Impairment of licenses		748,750		-
Impairment of equipment		-		58,412
Changes in non-cash working capital items:				
Receivables		(84,942)		(36,768)
Prepaid		(23,732)		41,354
Inventory		(153,368)		(277,547)
Accounts payable and accrued liabilities		102,685		180,677
Related parties		(41,666)		159,736
Cash used in operating activities		(2,835,058)		(1,525,174)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment costs		(328,955)		-
Capital asset costs		(59,331)		-
Net cash used in investing activities		(388,286)		-
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash received on completion of RTO		-		105,488
Advances from Laguna Blends Inc. prior to RTO		-		150,000
Proceeds from the issuance of common shares		3,841,593		360,940
Obligation to issue shares		400,000		-
Share issue costs		(50,415)		-
Proceeds from the issuance of loans payable		(355,000)		1,000,000
Cash provided by financing activities		3,836,178		1,616,428
Change in cash during the year		612,834		91,254
Cash, beginning of year		105,814		14,560
Cash, end of year	\$	718,648	\$	105,814
Cash paid during the period for interest	\$	71,568	\$	32,283
Cash paid during the period for income tax	\$	-	\$	-

Supplemental Cash Flow Information (Note 19)

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

ISODIOL INTERNATIONAL INC.

(formerly LAGUNA BLENDS INC.)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Expressed in Canadian Dollars)

	Share capital		Reserves				
	Number	Amount	Warrants	Obligation to issue shares	Stock-based compensation	Deficit	Total
Balance, March 31, 2015	10,400,040	\$ 565,000	\$ 10,000	\$ -	300	\$ (912,978)	\$ (337,678)
Shares issued in cash	1,585,954	369,180	153,488	-	-	-	522,668
Shares issued for services	920,000	621,000	-	-	-	-	621,000
Shares returned to treasury	(816,040)	-	-	-	-	-	-
Company balance prior to RTO	6,741,973	851,399	1,030,414	-	809,154	(2,229,205)	461,762
RTO adjustment	-	(851,399)	(1,030,414)	-	(809,154)	2,229,205	(461,762)
Elimination of shares of Laguna Blends (USA) Inc.	(11,064,000)	-	-	-	-	-	-
Share issuance – RTO	11,064,000	6,067,775	-	-	441,000	-	6,508,775
Shares for promissory notes	560,000	66,525	-	-	-	-	66,525
Shares issued to settle accounts payable	967,299	218,381	-	-	-	-	218,381
Shares to be issued for services	-	-	-	-	25,000	-	25,000
Stock based compensation	-	-	-	-	309,415	-	309,415
Net Loss for the period	-	-	-	-	-	(8,676,832)	(8,676,832)
Balance, March 31, 2016	20,359,226	\$ 7,907,861	\$ 163,488	\$ -	775,715	\$ (9,589,810)	\$ (742,746)
Shares issued for cash	19,490,286	3,460,991	-	-	-	-	3,460,991
Share issuance costs	-	(50,415)	-	-	-	-	(50,415)
Shares issued for services	4,300,603	798,027	-	-	(25,000)	-	773,027
Shares issued pursuant to options exercised	1,550,000	248,000	-	-	-	-	248,000
Shares issued pursuant to licensing agreement	4,282,543	748,750	-	-	-	-	748,750
Shares issued pursuant to warrants exercised	890,682	133,602	-	-	-	-	133,602
Shares issued pursuant to investment in Carlsbad	4,000,000	532,000	-	-	-	-	532,000
Shares issued pursuant to debt settlement	2,800,000	558,000	-	-	-	-	558,000
Share payments received	-	-	-	400,000	-	-	400,000
Share payments receivable	-	-	-	(1,000)	-	-	(1,000)
Stock-based compensation	-	-	-	-	130,451	-	130,451
Net Loss for the period	-	-	-	-	-	(4,286,263)	(4,286,263)
Balance, March 31, 2017	57,673,340	14,336,816	163,488	399,000	881,166	(13,876,073)	1,904,397

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

ISODIOL INTERNATIONAL INC.

(formerly LAGUNA BLENDS INC.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017 – Page 1

(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Isodiol International Inc. (formerly Laguna Blends 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 is a network marketing Company focused on the nutritional health benefits that are derived from hemp.

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") (Note 4). 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.

The Company's registered and records office is at 615, 800 West Pender Street, Vancouver, BC V6C 2V6. The corporate head office is at 303 – 1275 Venables St, Vancouver, BC V6A 2A9.

Effective January 6, 2016, the Company completed a consolidation of its common shares ("share consolidation") on the basis of one post-consolidation share for every 2.5 pre-consolidation common shares previously held. All references to share, per share amounts and exercise prices have been retroactively restated to reflect the effect of the share consolidation.

These consolidated 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 year ended March 31, 2017, the Company's operations do not generate cash flows, the Company had incurred a net loss of \$4,286,263 and the Company had an accumulated deficit of \$13,876,073. 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 consolidated financial statements for the year ended March 31, 2017, have been prepared in accordance International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements are authorized for issued by the Board of Directors on July 31, 2017.

Basis of Consolidation and Presentation

The consolidated 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.

These consolidated financials incorporate the financial statements of the Company and its wholly controlled subsidiaries, Laguna Blends (USA) Inc. ("Laguna USA"), a company incorporated in the State of Nevada and extra-provincially registered in British Columbia and Laguna Blends (Canada) Inc. ("Laguna Canada"), a company incorporated in British Columbia. 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 consolidated financial statements include the accounts of the Company and its direct wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

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.

ISODIOL INTERNATIONAL INC.

(formerly LAGUNA BLENDS INC.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017 – Page 2

(Expressed in Canadian Dollars)

2. BASIS OF PREPARATION - (Continued)

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 managements strategic planning. Should those judgments prove to be inaccurate, management's continued use of the going concern assumption could be inappropriate.

Critical Accounting Estimates

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.

The inputs in accounting for share based payment transactions in the statements of loss and comprehensive loss (using the Black-Scholes model) including volatility, probable life of options granted and forfeiture rate.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements set out below have been applied consistently in all material respects.

Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial assets in the following three categories depending on the purpose for which the instruments were acquired: Financial assets at fair value through profit or loss ("FVTPL"), available for sale ("AFS") financial assets or loans and receivable.

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. Financial assets are impaired when one or more events that occurred after the initial recognition of the financial asset have been impacted.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at FVTPL or other financial liabilities, as appropriate.

The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value.

The Company's financial liabilities include accounts payable and accrued liabilities, due to related parties, and loans payable. Subsequent to initial recognition, accounts payable and accrued financial liabilities, due to related parties, and loans payable are measured at amortized cost using the effective interest method. All are classified as other financial liabilities.

ISODIOL INTERNATIONAL INC.

(formerly LAGUNA BLENDS INC.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017 – Page 3

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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

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

Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes product sales when it is probable that the economic benefits will flow to the Company, the goods are received by the customers and the significant risks and benefits of ownership are transferred, the price is fixed or determinable and collection of the resulting receivable is reasonably assured. Revenue is measured based on the price specified, net of sales commissions expenses, trade discounts and estimated returns at the time of sale. Historical experience is used to estimate allowances for returns.

Accounts receivable consist of amounts due from customers and are recorded upon the sale of product to customers. Credit terms are extended to customers in the normal course of business and no collateral is required. The Company estimates an allowance for doubtful accounts based on historical losses, the existing economic conditions and the financial stability of its customers. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

Inventory

Inventory is stated at the lower of cost or market value. Cost is determined using the weighted average method, which under the circumstances, management believes will provide for the most practical basis for the measurement of periodic income. Management periodically reviews inventory for slow moving or obsolete items and considers realizability based on the Company's marketing strategies and sales forecasts to determine if an allowance is necessary. If market value is below cost then an allowance is created to adjust the carrying amount of inventory.

Impairment of tangible and intangible assets

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Equipment

Equipment items are carried at cost less accumulated depreciation and accumulated impairment losses. In the year of acquisition, depreciation is recorded at one-half the normal rate. Depreciation is recognized using the declining balance method at the following annual rates:

Office Furniture	Declining-Balance	20%
Computer Equipment	Declining-Balance	55%

ISODIOL INTERNATIONAL INC.

(formerly LAGUNA BLENDS INC.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017 – Page 4

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Equipment that is withdrawn from use, or has no reasonable prospect of being recovered through use or sale, are regularly identified and written off.

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Subsequent expenditure relating to an item of equipment is capitalized when it is probable that future economic benefits from the use of the assets will be increased. All other subsequent expenditure is recognized as repairs and maintenance expense.

Basic and Diluted Loss per Share

Basic losses per share are computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted losses per share reflect the potential dilution that could occur if potentially dilutive securities were exercised or converted to common shares. The dilutive effect of options and warrants and their equivalent is computed by the application of the treasury stock method. Diluted earnings per share exclude all dilutive potential common shares if their effect is anti-dilutive.

Share Capital

The Company records proceeds from share issuances net of issue costs and any tax effects in shareholders' equity. Common shares issued for consideration other than cash are valued based on their market value at the date the shares were granted. Common shares held by the Company are classified as treasury stock and recorded as a reduction to shareholders' equity.

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The Company considers the fair value of common shares issued in private placements to be the more easily measurable component of unit offerings and the common shares are valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to any attached warrants or other features. Any fair value attributed to warrants is recorded as contributed surplus.

Share-based payments

The Company grants stock options to buy common shares of the Company to directors, officers, employees and service providers. The board of directors grants such options for periods of up to five years, with vesting periods determined at its sole discretion and at prices equal to or greater than the closing market price on the day preceding the date the options were granted.

The fair value of the options granted to employees is measured as grant date, using the Black-Scholes option pricing model, and is recognized immediately that the employees earn the options. The fair value is recognized as an expense with a corresponding increase in equity. The amount recognized as expense is adjusted to reflect the number of share options expected to vest.

The fair value of the options granted to non-employees are measured at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case the fair value of the equity instruments issued is used. The value of the goods or services is recorded at the earlier of the vesting date, or the date the goods or services are received.

If and when the stock options are exercised, the applicable amounts of equity reserves are transferred to share capital.

Foreign Currency Translation

The functional currency is the currency of the primary economic environment in which the entity operates. The functional currency for the Company and all its subsidiaries is the Canadian dollar. The functional currency

ISODIOL INTERNATIONAL INC.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES – (Continued)

determination was conducted through an analysis of the consideration factors identified in IAS 21, the Effects of Changes in Foreign Exchange Rates.

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the date of the transaction. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated

in a foreign currency are translated at the rate of exchange prevailing at the statement of financial position date, while non-monetary assets and liabilities are translated at the exchange rate prevailing on the transaction date. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transaction. Exchange gains and losses arising on translation are included in the statement of comprehensive loss or income.

Income taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income. Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

New standards not yet adopted

IFRS 9: Financial Instruments was issued by the IASB in October 2010. It incorporates revised requirements for the classification and measurement of financial liabilities and carrying over the existing de-recognition requirements from IAS 39 *Financial instruments: recognition and measurement*. The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The impact of IFRS 9 on the Company's financial instruments has not yet been determined.

IFRS 15: New standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers, effective for annual periods beginning on or after January 1, 2018. The impact of IFRS 15 on the Company's financial instruments has not yet been determined.

IFRS 16: A new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lease accounting model. The impact of IFRS 16 on the Company's financial instruments has not yet been determined.

ISODIOL INTERNATIONAL INC.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in Canadian Dollars)

4. REVERSE TAKEOVER TRANSACTION

On September 18, 2015, the Company completed the RTO with Laguna Blends Inc. ("Laguna Blends (USA) Inc.") pursuant to which the Company acquired all of the outstanding securities of Laguna Blends (USA) Inc. As part of the transaction, the Company changed its name to Laguna Blends Inc. and Laguna Blends Inc. changed its name to Laguna Blends (USA) Inc. Laguna Blends (USA) Inc. became a wholly owned subsidiary of the Company. As at March 31, 2015, the Company had advanced \$320,000 to Laguna Blends (USA) Inc. pursuant to the letter of intent. Prior to the completion of the RTO, the Company advanced an additional \$150,000 to Laguna Blends (USA) Inc. All amounts advanced were eliminated on completion of the RTO.

The terms of transaction were as follows:

- An exchange of common shares of the Company and Laguna Blends (USA) Inc. at a ratio of one share of the Company share for every one share of Laguna Blends (USA) Inc. (11,064,000 common shares of the Company issued);
- Share purchase warrants and stock options of the Company were issued to/exchanged with holders of Laguna Blends (USA) Inc. convertible securities.

The acquisition of Laguna Blends (USA) Inc. was accounted for as reverse takeover transaction that was not a business combination and effectively a capital transaction of the Company. Laguna Blends (USA) Inc. has been treated as the accounting parent (legal subsidiary) and the Company has been treated as the accounting subsidiary (legal parent) in these consolidated financial statements. As Laguna Blends (USA) Inc. was deemed to be the acquirer for accounting purposes, its assets, liabilities and operations since incorporation are included in these consolidated financial statements at their historical carrying values. Laguna Blends Inc.'s results of operations have been included from the date of the RTO. The legal capital continues to be that of Laguna Blends Inc., the legal parent. These consolidated financial statements are a continuation of those of Laguna Blends (USA) Inc. which was incorporated on June 24, 2014.

The purchase price of \$6,508,775 was calculated based on a share value of \$0.36 and an option value of \$0.24 based on the Black-Scholes option pricing model with an expected volatility of 100%, dividend yield of 0.00%, expected life of 1.6 years, and a risk-free rate of 0.81%.

	Total
Purchase price in shares	\$ 6,067,775
Purchase price in options	441,000
Total Purchase Price	\$ 6,508,775
Preliminary allocation of purchase price:	
Net working capital	\$ 403,550
Equipment	58,412
Charges related to public company listing	6,047,013
	\$ 6,508,775

The fair value of the Company's net assets is estimated to be consistent with their carrying value.

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5. EQUIPMENT

	Office equipment	Computer equipment	Total
Cost			
Balance, March 31, 2015	\$ -	\$ -	\$ -
Additions	54,667	3,745	58,412
Impairment writedown	(54,667)	(3,745)	(58,412)
Balance, March 31, 2016	\$ -	\$ -	\$ -
Additions	59,331	-	59,331
Balance, March 31, 2017	\$ 59,331	\$ -	\$ 59,331
Accumulated depreciation			
Balance, March 31, 2015	\$ -	\$ -	\$ -
Depreciation for the period	-	-	-
Impairment writedown	-	-	-
Balance, March 31, 2016 and 2017	\$ -	\$ -	\$ -
Carrying amounts			
As at March 31, 2016	\$ -	\$ -	\$ -
As at March 31, 2017	\$ 59,331	\$ -	\$ 59,331

6. RECEIVABLES

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

	March 31, 2017	March 31, 2016
Sales tax recoverable	\$ 93,811	\$ 53,427
Trade receivables	56,768	12,210
Balance, March 31, 2017	\$ 150,579	\$ 65,637

Sales tax receivable is due from Canadian government taxation authorities

All amounts are short-term 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 receivables are all considered current and are not past due or impaired. The Company does not possess any collateral related to these assets.

7. INVESTMENT

On February 14, 2017, the Company acquired a 19% interest in Carlsbad Naturals LLC ("Carlsbad") by issuing 4,000,000 common shares with a fair value of \$532,000 and a one-time payment of \$250,000 USD (\$328,955 CDN) for a total purchase price of \$860,955. Carlsbad is a private company without a quoted market price in an active market. The shares were initially measured at a fair value of \$860,955 and there has been no change during the year ended March 31, 2017.

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8. LICENSES

During the year ended March 31, 2017, the Company signed an exclusive license and distribution agreement with ISO International LLC("ISO") by issuing 4,282,543 common shares with a fair value of \$748,750. Subsequent to the year end, the Company acquired 100% interest in ISO (Note 18). As a result of the acquisition the license and distribution agreement is no longer in effect and as a result the balance has been written off as at March 31, 2017.

9. LOANS PAYABLE

	March 31, 2017	March 31, 2016
Secured loan payable, bearing interest at 10% per annum, due July 16, 2016.	\$ -	\$ 250,000
Secured loan payable, bearing interest at 10% per annum, due July 31, 2016	-	50,000
Secured loans payable, bearing interest at 10% per annum, due November 12, 2016	-	175,000
Secured loan payable, bearing interest at 10% per annum, due December 11, 2016	-	100,000
Secured loans payable, bearing interest at 10% per annum, due January 20, 2017	-	220,000
Secured loan payable, bearing interest at 10% per annum, due January 28, 2017	-	10,000
Secured loans payable, bearing interest at 10% per annum, due March 24, 2017	-	130,000
Secured loans payable, bearing interest at 3.5% per annum, due July 16, 2017	250,000	-
Balance, March 31, 2017	250,000	935,000
Less: Current portion	(250,000)	(935,000)
Long term portion	\$ -	\$ -

During the year ended March 31, 2016, the Company, through its wholly owned subsidiary Laguna USA, entered into various loan agreements in the aggregate principal amount of \$935,000. The loans are secured by a charge against all present and future inventory of Laguna USA and are bearing interest at a rate of 10% per annum, payable on each monthly anniversary of the date of the respective loan agreement. The loans may be prepaid at any time during the term of the loan, together with any accrued and unpaid interest then outstanding.

During the year ended March 31, 2017, the Company entered into an amended loan agreement to extend the maturity date of the \$250,000 loan payable to July 16, 2017 and to adjust the interest rate to 3.5%. The loan is currently passed its maturity date.

During the year ended March 31, 2017, the Company recorded \$71,568 (2016: \$35,522) in interest and \$nil (2016: \$38,250) in lending fees accrued in connection with the issuance of loans payable.

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10. SHARE CAPITAL

a) Authorized share capital

Unlimited number of common without par value.

b) Issued share capital

Effective January 6, 2016, the Company completed a consolidation of its common shares ("share consolidation") on the basis of one post-consolidation share for every 2.5 pre-consolidation common shares previously held. All references to share, per share amounts and exercise prices have been retroactively restated to reflect the effect of the share consolidation.

Changes in the issued common shares of the Company during the years ended March 31, 2017 and March 31, 2016 were as follows:

Year ended March 31, 2016:

- i. On April 7, 2015, the Company issued 920,000 common shares at a deemed price of \$0.675 per share for a total of \$621,000 in exchange for services with unrelated parties.
- ii. On June 23, 2015, the Company cancelled 256,000 common shares previously issued to a former consultant pursuant to an agreement to terminate a consulting agreement.
- iii. On July 9, 2015, the Company and the CEO entered into a return to treasury agreement whereby 40 common shares of the Company issued to Mr. Gray on June 14, 2014 as founders shares were returned to the treasury of Laguna for the sole purpose of Laguna retiring the surrendered shares without any consideration.
- iv. On July 28, 2015, the Company and the CEO entered into a debt settlement and subscription agreement whereby \$65,000 previously loaned by the CEO to the Company under two promissory notes and the interest thereon were settled by the issuance of 560,000 common shares of the Company to the CEO. Also on this date, the CEO returned 560,000 common shares of the Company which were issued to the CEO pursuant to his consulting agreement with the Company to the treasury for cancellation.
- v. On October 1, 2015, completed a non-brokered private placement by issuing 223,040 common shares at a deemed price of \$0.70 per common share for total proceeds of \$156,128.
- vi. On October 28, 2015, issued 42,478 common shares at a deemed price of \$0.45 per common share in connection with debt settlement agreements for a total of \$19,115 as settlement for consulting services with an unrelated party.
- vii. On October 30, 2015, completed a non-brokered private placement by issuing 173,628 common shares at a deemed price of \$0.70 per common share for total proceeds of \$121,540.
- viii. On November 9, 2015, completed a non-brokered private placement by issuing 14,286 common shares at a deemed price of \$0.70 per common share for total proceeds of \$10,000.
- ix. On January 7, 2016, issued 28,571 common shares at a deemed price of \$0.70 per common share in connection with a debt settlement agreement for a total of \$20,000 as settlement for consulting services with an unrelated party.
- x. On March 1, 2016, issued 293,750 common shares at a deemed price of \$0.20 per common share in connection with debt settlement agreements for a total of \$58,750 as settlement for consulting services with unrelated parties.
- xi. On March 1, 2016, issued 602,500 common shares at a deemed price of \$0.20 per common share for total proceeds of \$120,500 to settle outstanding loans payable to a related party.

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10. SHARE CAPITAL – (Continued)

- xii. On March 10, 2016, completed a non-brokered private placement by issuing 1,175,000 common shares at a deemed price of \$0.20 per common share for total proceeds of \$235,000.

Year ended March 31, 2017:

- i. On May 17, 2016, completed a non-brokered private placement by issuing 1,763,409 units at a price of \$0.11 per unit for total proceeds of \$193,975. Each unit consisted of one common share and one share purchase warrant. Each warrant is exercisable at \$0.15 for a period of 12 months.
- ii. On June 2, 2016, the Company issued 22,727 common shares at a price of \$0.11 per common share for a total of \$2,500 in exchange for consulting services with an unrelated party.
- iii. On June 2, 2016, the Company issued 438,960 common shares at a price of \$0.11 per common share for a total of \$48,286 in exchange for consulting services with a related party.
- iv. On June 23, 2016, the Company issued 85,714 common shares at a price of \$0.105 per common share for a total of \$9,000 in exchange for consulting services with a related party.
- v. On June 30, 2016, the Company issued 200,000 common shares pursuant to the exercise of options at a price of \$0.16 per share.
- vi. On July 5, 2016, the Company issued 14,706 common shares at a deemed price of \$0.17 per common share in for a total of \$2,500 in exchange for consulting services with an unrelated party.
- vii. On, July 15, 2016, the Company completed a non-brokered private placement by issuing 2,712,882 units at a price of \$0.11 per unit for total proceeds of \$298,417. Each unit consisted of one common shares and one share purchase warrant. Each warrant is exercisable at \$0.15 for a period on twelve months.
- viii. On July 18, 2016, the Company issued 13,158 common shares at a price of \$0.19 per common share for a total of \$2,500 in exchange for consulting services with an unrelated party.
- ix. On July 18, 2016, the Company issued 30,000 common shares at a price of \$0.30 per common share for a total of \$9,000 in exchange for consulting services with a related party.
- x. On August 2, 2016, the Company issued 250,000 shares pursuant to the exercise of options at \$0.16 per share.
- xi. On August 2, 2016, the Company issued 10,000 common shares at a price of \$0.25 per common share for a total of \$2,500 in exchange for consulting services with an unrelated party.
- xii. On August 18, 2016, the Company issued 9,615 common shares at a price of \$0.26 per common share for a total of \$2,500 in exchange for consulting services with an unrelated party.
- xiii. On August 18, 2016, the Company issued 34,615 common shares at a price of \$0.26 per common share for a total of \$9,000 in exchange for consulting services with a related party.
- xiv. On August 19, 2016, the Company issued 532,543 common shares at \$0.24 per share pursuant to a licensing agreement.
- xv. On August 26, 2017, the Company completed a non-brokered private placement by issuing 1,627,200 units at a price of \$0.25 per unit for total proceeds of \$406,800. Each unit consisted of one common shares and one share purchase warrant. Each warrant is exercisable at \$0.40 for a period on twelve months.
- xiii. On September 2, 2016, the Company issued 11,363 common shares at a price of \$0.22 per common share for a total of \$2,500 in exchange for consulting services with an unrelated party.

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10. SHARE CAPITAL – (Continued)

- xiv. On September 19, 2016, the Company issued 10,869 common shares at a price of \$0.23 per common share for a total of \$2,500 in exchange for consulting services with an unrelated party.
- xv. On September 19, 2016, the Company issued 39,130 common shares at a price of \$0.23 per common share for a total of \$9,000 in exchange for consulting services with a related party.
- xvi. On October 2, 2016, the Company issued 11,363 common shares at a price of \$0.22 per share for a total of \$2,500 in exchange for services with unrelated parties.
- xvii. On October 14, 2016, the Company issued 207,143 common shares at a price of \$0.28 per share for a total of \$58,000 in exchange for services with unrelated parties.
- xviii. On October 14, 2016, the Company issued 150,000 shares pursuant to the exercise of options at \$0.16 per share.
- xix. On October 18, 2016, the Company issued 6,667 common shares at a price of \$0.375 per share for a total of \$2,500 in exchange for services with unrelated parties.
- xx. On October 18, 2016, the Company issued 34,667 common shares at a price of \$0.375 per common share for a total of \$13,000 in exchange for consulting services with related parties.
- xxi. On October 18, 2016, the Company issued 150,000 shares pursuant to the exercise of options at \$0.16 per share.
- xxii. On October 18, 2016, the Company issued 600,000 common shares at a price of \$0.38 per common share in connection with debt settlement agreements for a total of \$228,000 as settlement for consulting services with an unrelated party.
- xxiii. On October 28, 2016, the Company issued 100,000 shares pursuant to the exercise of options at \$0.16 per share.
- xxiv. On November 2, 2016, the Company issued 6,250 common shares at a price of \$0.40 per share for a total of \$2,500 in exchange for services with unrelated parties.
- xxv. On November 3, 2016, the Company completed a non-brokered private placement by issuing 5,537,800 units at a price of \$0.25 per unit for total proceeds of \$1,384,450. Each unit consisted of one common share and one share purchase warrant. Each warrant is exercisable at \$0.40 for a period on twelve months.
- xxvi. On November 18, 2016, the Company issued 44,642 common shares at a price of \$0.28 per share for a total of \$12,500 in exchange for services with unrelated parties.
- xxvii. On November 18, 2016, the Company issued 39,284 common shares at a price of \$0.28 per share for a total of \$11,000 in exchange for services with related parties.
- xxviii. On November 30, 2016, the Company issued 63,636 shares pursuant to the exercise of warrants at \$0.15 per share.
- xxix. On December 2, 2016, the Company issued 9,259 common shares at a price of \$0.27 per share for a total of \$2,500 in exchange for services with unrelated parties.
- xxx. On December 19, 2016, the Company issued 58,824 common shares at a price of \$0.17 per share for a total of \$10,000 in exchange for services with an unrelated party.
- xxxi. On December 19, 2016, the Company issued 64,705 common shares at a price of \$0.17 per share for a total of \$11,000 in exchange for services with related parties.

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10. SHARE CAPITAL – (Continued)

- xxxii. On January 2, 2017, the Company issued 500,000 common shares at a price of \$0.185 per share for a total of \$92,500 in exchange for services with related parties.
- xxxiii. On January 2, 2017, the Company issued 20,833 common shares at a price of \$0.12 per share for a total of \$2,500 in exchange for services with an unrelated party.
- xxxiv. On January 18, 2017, the Company issued 52,954 common shares at a price of \$0.235 per share for a total of \$12,444 in exchange for services with related parties.
- xxxv. On January 18, 2017, the Company issued 42,553 common shares at a price of \$0.235 per share for a total of \$10,000 in exchange for services with an unrelated party.
- xxxvi. On January 23, 2017, the Company issued 227,273 shares pursuant to the exercise of warrants at \$0.15 per share.
- xxxvii. On January 24, 2017, the Company issued 227,273 shares pursuant to the exercise of warrants at \$0.15 per share.
- xxxviii. On February 1, 2017, the Company issued 2,200,000 shares at a price of \$0.15 per shares to settle loan amounts of \$330,000.
- xxxix. On February 3, 2017, the Company completed the first tranche of a non-brokered private placement by issuing 5,543,329 units at a price of \$0.15 per unit for total proceeds of \$831,500. Each unit consisted of one common shares and one share purchase warrant. Each warrant is exercisable at \$0.25 for a period on twelve months.
- xl. On February 3, 2017, the Company issued 100,000 shares pursuant to the exercise of warrants at \$0.15 per share.
- xli. On February 3, 2017, the Company issued 11,628 common shares at a price of \$0.215 per share for a total of \$2,500 in exchange for services with an unrelated party.
- xl. On February 3, 2017, the Company issued 11,628 common shares at a price of \$0.215 per share for a total of \$2,500 in exchange for services with an unrelated party.
- xlii. On February 7, 2017, the Company issued 1,000,000 common shares at a price of \$0.22 per share for a total of \$220,000 in exchange for services with an unrelated party.
- xliii. On February 9, 2017, the Company completed a non-brokered private placement by issuing 2,305,666 units at a price of \$0.15 per unit for total proceeds of \$345,850. Each unit consisted of one common shares and one share purchase warrant. Each warrant is exercisable at \$0.25 for a period on twelve months.
- xliv. On February 17, 2017, the Company issued 500,000 shares pursuant to the exercise of options at \$0.16 per share.
- xlv. On February 17, 2017, the Company issued 56,148 common shares at a price of \$0.22 per share for a total of \$12,353 in exchange for services with related parties.
- xlvi. On February 21, 2017, the Company issued 4,250,000 common shares at a price of \$0.165 per share pursuant to the Iso International LLC license and distribution agreement.
- xlvii. On February 22, 2017, the Company issued 200,000 shares pursuant to the exercise of options at \$0.16 per share.
- xlviii. On February 22, 2017, the Company issued 272,500 shares pursuant to the exercise of warrants at \$0.15 per share.
- xlix. On February 22, 2017, the Company issued 750,000 common shares at a price of \$0.145 per share for a total of \$108,750 in exchange for services with a related party.

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10. SHARE CAPITAL – (Continued)

- I. On March 2, 2017, the Company issued 4,000,000 common shares at a price of \$0.133 per share pursuant to the Carlsbad purchase agreement .
- li. On March 2, 2017, the Company issued 13,158 common shares at a price of \$0.19 per share for a total of \$2,500 in exchange for services with an unrelated party.
- lii. On March 17, 2017, the Company issued 72,727 common shares at a price of \$0.165 per share for a total of \$12,000 in exchange for services with an unrelated party.
- liii. On March 17, 2017, the Company issued 76,940 common shares at a price of \$0.165 per share for a total of \$12,695 in exchange for services with a related parties.

c) Shares to be issued

During the year ended March 31, 2017, the Company received \$400,000 in subscription amounts pursuant to the private placement which closed subsequent to year end on May 23, 2017.

d) Escrow shares

On September 18, 2015, the Company entered into a stock restriction agreement whereby 3,000,000 common shares were placed into escrow. These shares will be released from escrow beginning on September 21, 2016 as to 300,000 shares and an additional 450,000 shares every 6 months thereafter until September 21, 2019. As at March 31, 2017, 2,250,000 common shares were held in escrow.

e) Warrants

The continuity of warrants for the period ended March 31, 2017 is summarized below:

	<u>Number</u>	<u>Weighted Average Exercise Price</u>
Balance, March 31, 2015	1,600,000	\$0.68
Issued	2,585,927	\$0.79
Expired	(710,565)	\$1.25
Balance, March 31, 2016	3,475,362	\$0.55
Issued	19,490,286	\$0.28
Expired	(289,408)	\$1.21
Exercised	(890,682)	\$0.15
Balance, March 31, 2017	21,785,558	\$0.33

At March 31, 2017, the Company had 21,785,558 share purchase warrants outstanding. Each warrant entitles the holder the right to purchase one common share as follows:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
223,040	\$1.25	October 1, 2017 ⁽¹⁾
173,628	\$1.25	October 30, 2017 ⁽¹⁾
14,286	\$1.25	November 9, 2017 ⁽¹⁾
1,175,000	\$0.25	March 10, 2018
1,600,000	\$0.68	December 31, 2019
1,490,909	\$0.15	May 17, 2017 ⁽²⁾
2,094,700	\$0.15	July 15, 2017 ⁽³⁾
1,627,200	\$0.40	August 26, 2017
5,537,800	\$0.40	November 3, 2017
5,543,329	\$0.25	February 3, 2018
2,305,666	\$0.25	February 9, 2018
<u>21,785,558</u>		

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10. SHARE CAPITAL – (Continued)

e) Warrants (continued)

- (1) These warrants contain an acceleration clause whereby, if the volume weighted average closing price of the Company's shares is at least \$0.60 for a period of twenty (20) or more consecutive trading days, the Company will have the right, by providing notice to the warrant holders, to accelerate the expiry date of the warrants to that date which is ten (10) business days from the date of such acceleration notice.
- (2) Subsequent to March 31, 2017, these warrants expired unexercised.
- (3) Subsequent to March 31, 2017, 1,844,700 warrants were exercised and 250,000 expired.

As at March 31, 2017, the weighted average remaining contractual life of all warrants outstanding was 1.12 years.

The fair value of the warrants issued was determined on the date of issuance based upon the average of the pro-rata method and the Black-Scholes Option Pricing Model using the following assumptions:

	2017	2016
Risk-free interest rate	N/A	0.55%
Annualized volatility	N/A	100%
Expected dividend yield	N/A	Nil
Expected warrants life in years	N/A	2.89 years

f) 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 \$0.10. 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 period ended March 31, 2017 is summarized below:

	<u>Number</u>	<u>Weighted Average Exercise Price</u>
Outstanding and exercisable, March 31, 2015	720,000	\$0.40
Granted	3,270,000	\$0.25
Forfeited/Cancelled	<u>(1,460,000)</u>	\$0.45
Outstanding and exercisable, March 31, 2016	2,530,000	\$0.18
Granted	1,800,000	\$0.17
Forfeited/Cancelled	(1,140,000)	\$0.15
Exercised	<u>(1,550,000)</u>	\$0.16
Outstanding and exercisable, March 31, 2017	<u>1,640,000</u>	\$0.18

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10. SHARE CAPITAL – (Continued)

f) Stock options (continued)

At March 31, 2017, 1,640,000 share purchase options were outstanding and exercisable entitling the holders thereof the right to purchase one common share for each option held as follows:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
200,000	\$0.25	September 2, 2017
40,000	\$0.70	September 29, 2017
<u>1,400,000</u>	<u>\$0.16</u>	<u>March 27, 2019</u>
<u>1,640,000</u>		

The weighted average remaining life for the options outstanding and exercisable at March 31, 2017 is 1.78 years.

During the period ended March 31, 2017, stock based compensation in the amount of \$130,451 (2016 - \$309,418) was recognized on the issuance of stock options to directors, officers and consultants.

The following weighted average assumptions were used for the valuation of stock options:

	March 31, 2017	March 31, 2016
Risk-free interest rate	1.18%	0.69%
Expected life of options	1.27 years	1.30 years
Annualized volatility	85%	100%
Forfeiture rate	0.00%	0.00%

11. RELATED PARTY TRANSACTIONS

Key management of the Company are the directors and officers of the Company. Management compensation transactions for the periods ended March 31, 2016 and 2015 are summarized as follows:

	Management fees (paid/accrued)	Share-based payments	Total
Year ended March 31, 2017			
Directors and officers	\$ 755,333	\$ 116,468	\$ 865,801
Year ended March 31, 2016			
Directors and officers	\$ 267,950	\$ 55,363	\$ 323,313

As of March 31, 2017, \$Nil (March 31, 2016 - \$41,666) is owed to directors and officers of the Company and a company owned by a director of the Company for unpaid fees and expenses, and \$250,000 (March 31, 2016 - \$700,000) is owed in loans payable to the spouse of the former Chief Executive Officer ("CEO") of the Company.

During the year ended March 31, 2017, the Company paid and accrued interest expense of \$67,993 (2016: \$31,950) and lending fees of \$Nil (2016: \$22,500), which included in interest expense, in connection with loans payable to the CEO and the spouse of the CEO of the Company. Included in accounts payable and accrued liabilities is \$Nil (2016: \$24,884) in accrued interest owing to the spouse of the CEO.

On February 1, 2017, the Company and the spouse of the former CEO entered into a debt settlement and subscription agreement whereby \$330,000 previously loaned by the spouse of the former CEO to the Company under two promissory notes were settled by the issuance of 2,200,000 common shares of the Company to the spouse of the former CEO.

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11. RELATED PARTY TRANSACTIONS (continued)

During the year ended March 31, 2017, the Company paid \$105,000 (2016 - \$150,500) for consulting fees to the former Chief Executive Officer and Director. Of the amount paid in 2016, \$108,000 represented the issuance of 2,160,000 common shares at a deemed price of \$0.05 per share and issuance of 1,600,000 warrants to purchase common shares at a fair value of \$10,000. In addition, the Company paid \$797 in benefits on behalf of the former CEO and Director.

During the year ended March 31, 2017, the Company paid \$18,099 for consulting fees to the former Corporate Secretary and Director.

During the year ended March 31, 2017, the Company paid \$60,000 for consulting fees to a director of the Company. Of this amount \$14,000 represented the issuance of 59,294 common shares.

During the year ended March 31, 2017, the Company paid \$347,592 for consulting fees to the CEO, President, and Director of the Company. Of this amount \$235,278 represented the issuance of 1,393,823 common shares.

During the year ended March 31, 2017, the Company paid \$58,892 for consulting fees to a former President of a wholly owned subsidiary of the Company.

During the year ended March 31, 2017, the Company paid \$165,750 for consulting fees to the CFO and Director of the Company. Of this amount \$108,750 represented the issuance of 750,000 common shares at a deemed price of \$0.145 per share.

On July 9, 2015, the Company and its CEO entered into a return to treasury agreement whereby 40 common shares of the Company issued to the CEO on June 14, 2014 as founder's shares were returned to the treasury of the Company for the sole purpose of the Company retiring the surrendered shares without any consideration.

On July 28, 2015, the Company and its CEO entered into a debt settlement and subscription agreement whereby \$65,000 previously loaned by the CEO to the Company under two promissory notes and the interest thereon were settled by the issuance of 560,000 common shares of the Company to the CEO. Also on this date, the CEO returned 560,000 common shares of the Company which were issued to the CEO pursuant to his consulting agreement with the Company to treasury for cancellation.

During the year ended March 31, 2016, the CEO assigned \$120,500 in accrued and unpaid management fees receivable from the Company to his spouse. On March 1, 2016, the Company issued 602,500 common shares at a deemed price of \$0.20 per common share to the spouse of the CEO to settle the outstanding management fees owing of \$120,500.

12. LOSS PER SHARE

The calculation of basic and diluted loss per share was based on the following data:

	2017	2016
Net loss available to common shareholders (numerator)	\$ (4,286,263)	\$ (8,676,832)
Weighted average number of common shares outstanding (denominator)	31,770,680	14,796,079

The basic loss per share is computed by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as stock options and share purchase warrants, in the weighted average number of common shares outstanding during the period, only if dilutive.

As of March 31, 2017, loss per share excludes 23,675,558 (2016: 6,005,362) potentially dilutive common shares related to outstanding share purchase options and warrants, as the effect was anti-dilutive.

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13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial Instruments

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

		2017	2016
Financial Assets			
Cash	Fair Value through Profit and Loss	\$ 718,648	\$ 105,814
Receivables	Loans and receivables	150,579	12,210
Total Financial Assets		\$ 869,227	\$ 118,024
Financial Liabilities			
Accounts payable and accrued liabilities	Loans and receivables	\$ 125,328	\$ 250,643
Due to related parties	Loans and receivables	-	41,666
Loans payable	Financial liabilities at amortized cost	250,000	935,000
Total Financial Liabilities		\$ 375,328	\$ 1,227,309

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 March 31, 2017, cash is measured using Level 1 inputs. During the year ended March 31, 2017, 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 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.

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 March 31, 2017, the Company had a cash balance of \$718,648 to settle current liabilities of \$375,328. The Company is currently investigating financing opportunities so that it has sufficient liquidity to meet liabilities when due.

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13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT– (Continued)

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 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.

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.

The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality financial institutions. Receivables consist mainly of GST receivable from the Government of Canada and receivables due from merchant accounts. The Company believes credit risk with respect to receivables to be insignificant.

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 March 31, 2017, 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.

14. CAPITAL MANAGEMENT

The Company considers capital to be the elements of shareholders' equity. The Company's primary objectives in capital management are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain sufficient funds to finance its business development and meet its obligations as they come due. The Company is in the early stages of operations and is currently developing a capital structure which will support expanded activity. The Company monitors economic conditions and the risks related to the underlying assets and business opportunities. The Company does not presently utilize any quantitative measures to monitor its capital and is not subject to externally imposed capital requirements.

15. SEGMENTED REPORTING

The Company operates in one business segment, the sale of nutritional health products derived from hemp. Revenues from external customers are derived from customers located within North America as follows:

	2017	2016
Canada	\$ 75,346	\$ 7,730
United States	280,613	9,055
	<u>\$ 355,959</u>	<u>\$ 16,785</u>

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16. INCOME TAXES

A reconciliation of income taxes at statutory rates is as follows:

	March 31, 2017	March 31, 2016
Net loss for the year	\$ (4,286,263)	\$ (8,676,832)
Expected tax recovery at a combined federal and provincial rate of 26.0% (2016 - 26.0%)	(1,115,000)	(2,254,000)
Non-deductible expenses	224,000	1,659,000
Effect of reverse takeover	-	(103,000)
Effect of change in rates	-	(13,000)
Foreign tax rate differential	(4,000)	
Changes in unrecognized deductible temporary differences	895,000	711,000
Total income tax expense	\$ -	\$ -

Significant components of the Company's deferred income tax assets (not recognized) after applying enacted corporate income tax rates are as follows:

	March 31, 2017	March 31, 2016
Non-capital loss carry forwards	\$ 1,623,000	\$ 747,000
Un-deducted financing costs	22,000	9,000
Other	15,000	3,000
Net deferred income tax asset not recognized	\$ 1,660,000	\$ 759,000

Management had determined that the realization of the potential income tax benefits related to the non-capital losses is uncertain at this time, and cannot be viewed as more likely than not. Accordingly, the Company has recorded the potential deferred income tax asset.

As at March 31, 2017 the Company had estimated non-capital losses for Canadian income tax purposes of approximately \$6,200,000 (2016: \$2,818,000) that may be carried forward to reduce taxable income derived in future years with expiry dates ranging from 2034 to 2037.

The Company also had approximately \$33,000 of U.S. non-capital losses which are available for deductions against future income for tax purposes which expire in 2037.

17. COMMITMENTS

The Company entered into an office lease agreement during the year ended March 31, 2017. The Company's minimum payments over the next two fiscal years are as follows:

2018	\$ 122,800 USD
2019	125,400 USD
Total	\$ 248,200 USD

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18. SUBSEQUENT EVENTS

Subsequent to March 31, 2017:

- i) The Company completed a private placement by issuing 18,709,300 units at a price of \$0.12 per common share for total proceeds of \$2,245,116. Each unit consisted of one common share and one warrant, with each warrant entitling the holder to acquire one additional common share of the Company at a price of \$0.25 per share until May 19, 2019.
- ii) The Company completed a private placement by issuing 15,849,697 units at a price of \$0.12 per common share for total proceeds of \$1,896,954. Each unit consisted of one common share and one warrant, with each warrant entitling the holder to acquire one additional common share of the Company at a price of \$0.25 per share until June 14, 2019.
- iii) The Company granted options to acquire 10,350,000 common shares of the Company at \$0.205 per share for a period of two years to officers, directors and consultants of the Company.
- iv) The Company granted options to acquire 3,800,000 common shares of the Company at \$0.15 per shares for a period of 2 years to officers, directors and consultants of the Company.
- v) The Company acquired ISO International LLC ("ISO") by issuing 37.5 million common shares at a deemed price of 12 cents per share and made a cash payment of \$500,000 (U.S.). The company will pay an additional \$5.5-million (U.S.) over the next 12 months.
- vi) In connection with the ISO acquisition, the Company issued 10,566,500 common shares at a deemed value of 12 cents per finder's-fee share to an arm's-length party to the company representing 10 per cent of the value of the transaction.
- vii) The Company changed its name to Isodiol International Inc and began trading under the new symbol "ISOL."
- viii) The Company entered into a definitive agreement to acquire the assets of a cannabis-based beverage company including the predominant brands Pot-O-Coffee, Pot-O-Tea and Pot-O-Coco. Under the terms of the agreement, the company issued a total of 20,937,500 common shares at a deemed price of 12 cents per share and a one-time cash payment of \$250,000.
- ix) 1,844,700 warrants were exercised for proceeds of \$276,705 and 250,000 warrants expired unexercised.
- x) The Company issued 42,717,934 common shares to Directors, Officers, and Consultants of the Company.

19. 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 year ended March 31, 2017:

- i) The Company issued 2,200,000 common shares valued at \$330,000 as payment of \$330,000 in loans payable;
- ii) The company issued 600,000 common shares value at \$228,000 as payment of \$228,000 in accounts payable.

During the year ended March 31, 2016:

- iii) The Company issued 562,500 common shares valued at \$66,525 as payment of \$65,000 in loans payable and \$1,525 in accrued interest payable;
- iv) The Company issued 967,299 common shares valued at \$218,381 as payment of accounts payable.