

# **EASTWOOD BIO-MEDICAL CANADA INC.**

CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED JULY 31, 2018

(Expressed in Canadian Dollars)

# **EASTWOOD BIO-MEDICAL CANADA INC.**

FOR THE NINE MONTHS ENDED JULY 31, 2018

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## **NOTICE TO THE READER**

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

The accompanying unaudited condensed interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The unaudited condensed interim financial statements have been prepared using accounting policies in compliance with International Financial Reporting Standards for the preparation of the condensed interim financial statements and are in accordance with IAS 34 – Interim Financial Reporting.

The Company's independent auditor has not performed a review of these unaudited condensed interim financial statements in accordance with standards established by the Canadian Chartered Professional Accountants for a review of interim financial statements by an entity's auditor.

**EASTWOOD BIO-MEDICAL CANADA INC.**  
**CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION**  
(UNAUDITED – EXPRESSED IN CANADIAN DOLLARS)

As at	Notes	July 31, 2018	October 31, 2017
		\$	\$
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash		<b>804,659</b>	1,271,380
Accounts Receivable and Other Receivables	3	<b>115,957</b>	26,937
GST/HST Receivable		<b>427</b>	855
Purchase Deposits and Prepaid Expenses		-	81,650
Short-Term Loan Receivable from Related Parties	5	<b>1,135,000</b>	1,437,136
		<b>2,056,043</b>	2,817,958
<b>Equipments, Net</b>	6	<b>302,321</b>	-
<b>TOTAL ASSETS</b>		<b>2,358,364</b>	2,817,958
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT</b>			
Accounts Payable and Accrual Liabilities		<b>23,201</b>	19,622
Due to Investors		<b>100</b>	100
Deferred Revenue		<b>11,471</b>	13,917
Due to Related Parties		<b>88,563</b>	22,116
<b>TOTAL LIABILITIES</b>		<b>123,335</b>	55,755
<b>EQUITY</b>			
Share Capital	7	<b>4,698,567</b>	4,698,567
Reserves	7	<b>9,514</b>	9,514
Deficit		<b>(2,473,052)</b>	(1,945,878)
		<b>2,235,029</b>	2,762,203
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2,358,364</b>	2,817,958

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

These financial statements are authorized for issue by the Board of Directors October 1, 2018.

They are signed on the Company's behalf by:  
“Yunji Kim”

Yunji Kim  
Director

“Peter Chen”

Peter Chen  
Director

**EASTWOOD BIO-MEDICAL CANADA INC.**  
**CONDENSED INTERIM STATEMENTS OF OPERATIONS**  
(UNAUDITED – EXPRESSED IN CANADIAN DOLLARS)

	Three Months Ended		Nine Months Ended	
	2018	July 31, 2017	2018	July 31, 2017
		\$		\$
<b>Sales Revenue</b>	<b>161,862</b>	120,148	<b>321,162</b>	376,869
<b>Freight Revenue</b>	<b>2,826</b>	6,181	<b>8,674</b>	14,559
<b>Total Revenue</b>	<b>164,688</b>	126,329	<b>329,836</b>	391,428
<b>Cost of Purchases</b>	<b>105,653</b>	53,000	<b>184,660</b>	229,364
<b>Gross Profit</b>	<b>59,035</b>	73,329	<b>145,176</b>	162,064
<b>Expenses</b>				
Accounting and Audit Fees	-	-	<b>42,000</b>	40,660
Advertising and Marketing	<b>39,083</b>	58,193	<b>126,990</b>	65,172
Amortization	<b>15,995</b>	-	<b>18,456</b>	-
Bank and Credit Card Charges	<b>285</b>	446	<b>938</b>	1,002
Consulting Fees	<b>15,000</b>	16,200	<b>47,450</b>	46,200
Foreign Exchange Loss	<b>8,642</b>	4,357	<b>5,876</b>	12,064
Legal Fees	<b>9,957</b>	2,282	<b>17,202</b>	9,776
Listing Fees	<b>5,207</b>	5,590	<b>13,748</b>	13,474
Management Fees	<b>63,250</b>	63,250	<b>189,750</b>	189,750
Manufacturing Expenses	-	-	<b>4,223</b>	-
Office Expenses	<b>2,366</b>	2,518	<b>5,254</b>	3,782
Shipping	<b>6,079</b>	4,211	<b>14,953</b>	12,266
Wages & Salaries	<b>70,018</b>	69,107	<b>244,587</b>	199,975
	<b>235,882</b>	226,154	<b>731,427</b>	594,121
<b>Other Income</b>	<b>14,277</b>	20,939	<b>59,077</b>	66,542
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<b>162,570</b>	131,886	<b>527,174</b>	365,515
Earnings Loss Per Share – Basic & Diluted	<b>0.00</b>	0.00	<b>0.01</b>	0.01
Weighted Average Number of Shares Outstanding – Basic & Diluted	<b>68,885,969</b>	67,355,969	<b>68,885,969</b>	67,355,969

**EASTWOOD BIO-MEDICAL CANADA INC.**  
**CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY**  
(UNAUDITED – EXPRESSED IN CANADIAN DOLLARS)

	<b>Share Capital</b>				
	<b>Number of Shares</b>	<b>Amount</b>	<b>Reserves</b>	<b>Deficit</b>	<b>Total Equity</b>
		\$	\$	\$	\$
Balance as of October 31, 2016	67,355,969	4,654,259	9,514	(1,456,254)	3,207,519
Fair Value of Related Party Loan	-	(50,332)	-	-	(50,332)
Net Loss	-	-	-	(365,515)	(365,515)
Balance as of July 31, 2017	67,355,969	4,603,927	9,514	(1,821,769)	2,791,672
Share Issuance	1,530,000	97,553	-	-	97,553
Fair Value of Related Party Loan	-	(2,913)	-	-	(2,913)
Net Loss	-	-	-	(124,109)	(124,109)
Balance as of October 31, 2017	68,885,969	4,698,567	9,514	(1,945,878)	2,762,203
Net Loss	-	-	-	(527,174)	(527,174)
<b>Balance as of July 31, 2018</b>	<b>68,885,969</b>	<b>4,698,567</b>	<b>9,514</b>	<b>(2,473,052)</b>	<b>2,235,029</b>

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

**EASTWOOD BIO-MEDICAL CANADA INC.**  
**CONDENSED INTERIM STATEMENTS OF CASH FLOWS**  
(UNAUDITED – EXPRESSED IN CANADIAN DOLLARS)

	Notes	Nine Months Ended July 31, 2018	Nine Months Ended July 31, 2017
		\$	\$
<b>OPERATING ACTIVITIES</b>			
Net Loss for the Period		(527,174)	(365,515)
Non-Cash Item:			
Interest Income		(22,864)	(37,608)
Amortization		18,456	-
Changes in Non-Cash Working Capital			
Accounts Receivable		(89,020)	(13,615)
GST/HST Receivable		428	3,887
Purchase Deposits and Prepaid Expenses		81,650	101,046
Inventories		-	19,338
Accounts Payable and Accrued Liabilities		3,579	18,931
Deferred Revenue		(2,446)	5,878
Due (to)/ from Related Parties		66,447	(24,122)
Cash Provided By (Used In) Operating Activities		(470,944)	(291,780)
<b>INVESTING ACTIVITIES</b>			
Repayment on Loan Principal		325,000	-
Purchase of Manufacturing Equipment		(320,777)	-
Cash Provided By Investing Activities		4,223	-
(DECREASE)/INCREASE IN CASH		(466,721)	(291,780)
CASH – BEGINNING OF PERIOD		1,271,380	1,530,227
CASH – END OF PERIOD		804,659	1,238,447

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

EASTWOOD BIO-MEDICAL CANADA INC.  
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED JULY 31, 2018

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**1. Nature of Operations and Going Concern**

Eastwood Bio-Medical Canada Inc. (the "Company") was incorporated under the provincial Business Corporations Act (British Columbia) on December 10, 2010 and its registered office is at Unit 1130-4871 Shell Road, Richmond, BC, Canada, V6X 3Z6. The Company was formerly 100% owned by Eastwood Bio-Medical Research Inc. (EBMR), a privately owned Canadian company engaged in the development and commercialization of safe and effective treatment for non-insulin dependent diabetes mellitus (NIDDM-Type II diabetes). EBMR has commenced commercial operations to market and distribute its core technology, Eleotin<sup>®</sup>, to facilitate the management of metabolic disorders such as diabetes. The Company was listed on the TSX Venture Exchange (the "Exchange") as "EBM" on September 5, 2014.

On July 4, 2013, EBMR subdivided the one issued and outstanding common share of the Company into 48,000,000 common shares of the Company. All share and per share information presented in these financial statements has been adjusted to reflect the impact of the stock split.

During the year ended October 31, 2014, the Company successfully completed its initial public offering. Jordan Capital Markets Inc. acted as agent in connection with the offering. Pursuant to the offering, the Company issued 3,135,400 common shares of the Company at 25 cents per common share for gross proceeds of \$783,850. In addition to the common shares sold under the offering, the distribution of 16,220,569 common shares was qualified under the prospectus prepared in connection with the initial public offering. The Company now has 68,885,969 common shares issued and outstanding. The full disclosure concerning the Company's share capital is included and discussed in Note 7.

Effective on November 1, 2012, the Company entered into a Distribution and Licensing Agreement with EBMR ("License Agreement"), pursuant to which the Company became the exclusive distributor in Canada and non-exclusive distributor in the US for sales and distributing the EBMR's products. Pursuant to the License Agreement, the Company shall purchase the products from EBMR at pre-agreed upon purchase prices. The agreement will be valid for a period of ten years, and will automatically renew for subsequent terms of five years. Effective March 17, 2014, the Company amended and restated the License Agreement. Pursuant to this Amended and Restated Distribution and License Agreement (the "Current Agreement"), the pre-agreed upon purchase price was amended to pre-agreed upon percentage of the suggested retail price set by EBMR on products sold.

On December 12, 2012, the Company entered into Management and Administrative Service Agreement with EBMR ("Management Agreement"), pursuant to which the Company will make a payment of \$253,000 per year to EBMR in return for the management and support services provided by EBMR. This amount will cover the general administration expenses that would otherwise be incurred by EBMC, including payroll and related employee expenses, office premise and equipment rental, meals and entertainment expenses, bank charges, depreciation expenses, general insurance and general office expenses, etc. EBMR has the right to change the management fee amount from time to time on 30 days notice. There has been no change to the Management Agreement since 2012.

On June 19, 2015, the Company entered into a Memorandum of Understanding with EBMR ("MOU"), pursuant to which the Company is permitted to sell certain products to selected sub-distributors located in Asia. The Company shall purchase the products from EBMR at pre-agreed upon purchase price. EBMR retains the right to revoke the MOU at any time.

As at July 31, 2018, the Company has working capital of \$1,932,708, and has incurred accumulated loss of \$2,473,052 since incorporation. The Company possesses \$804,659 in cash. The continuation of the Company as a going concern is dependent upon its ability to attain profitable operations. In the event that the cash flow from operations are insufficient to meet the Company's current operating expenses, the Company will be required to scale back and reevaluate its planned expenditures and allocate its resources in such a manner as the Board of Directors and management deems to be in the Company's best interest. To the extent that the Company is unable to cover its ongoing cash requirements through operations, additional financing will be needed. However, there can be no assurance that such financing will occur in the amounts and with the terms expected in favor of the Company.

EASTWOOD BIO-MEDICAL CANADA INC.  
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED JULY 31, 2018

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**2. Significant Accounting Policies**

(a) Statement of Compliance

These condensed interim financial statements for the nine months ended July 31, 2018 (the “Interim Financial Statements”), have been prepared in accordance with IAS 34, ‘Interim financial reporting’. The Interim Financial statements should be read in conjunction with the annual financial statements for the year ended October 31, 2017, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standard Board (“IASB” and interpretations of the International Financial Reporting interpretation Committee (“IFRIC”).

These interim financial statements were authorized for issue by the Board of Directors on October 1, 2018.

(b) Basis of presentation

These financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value, as explained in the accounting policies. These financial statements are presented in Canadian dollars, which is the Company’s presentation currency.

(c) Functional Currency and Foreign Currency Translation

The Company’s functional currency is the Canadian dollar as the Company is based out of Canada and obtains the majority of its financing through Canadian dollar initial public offerings. Canadian dollar is the Company’s functional currency for its operations and its corporate head office in Canada. The Company’s assets and liabilities in U.S. dollars are all monetary items and have been converted into Canadian dollars using the rate of exchange prevailing at the respective balance sheet date. Revenue and expenses in U.S. dollars were translated at average rates of exchange for the year. The resulting foreign exchange gains and losses were recognized in the statements of loss and comprehensive loss.

(d) Significant Judgments, Estimates and Assumptions

The preparation of these financial statements requires management to make judgment, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual outcomes could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

*Areas of Judgments*

(i) Revenue

The Company assesses its revenue arrangement against specific criteria to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements. Determining whether the Company acts as principal or agent is based on an evaluation of which party has substantial risks and rewards of ownership under the terms of an arrangement. The most significant factors that the Company considers include identification of the primary obligor, as well as which party has credit risk, general and inventory risk (or equivalent) and latitude in establishing prices.

(ii) Impairment of loan receivable

The Company exercises judgment when evaluating the evidence of impairment for loan receivable from EBMR. Management’s judgment in this area are based on information available from EBMR at that time. In assessing impairment, management has considered a number of factors, including EBMR’s revenue sources, projected cash flow, the fair value of the real estate assets secured for the loan and the amount of other assets held by EBMR. As of July 31, 2018, there is no evidence of impairment identified by management. Actual results could differ from the judgment.

EASTWOOD BIO-MEDICAL CANADA INC.  
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED JULY 31, 2018

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**2. Significant Accounting Policies**

*Areas of Assumptions and Estimates*

(i) Deferred Taxes

The Company recognizes the deferred tax benefit related to deferred tax assets to the extent recovery is probable. Assessing the recoverability of deferred tax assets requires management to make significant estimates of future taxable profit. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in the future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

(ii) Loans at Below-Market Interest Rate

Loans provided to the related company with below-market interest rates are valued at inception using fair market interest rate for arm's length loans. Such interest rate requires management's estimate by reference to loan interest paid by comparable companies in the similar sector. The Company estimates 5.7% being the reasonable interest rate that EBMR would likely pay in obtaining loans.

(e) Financial Instruments

All financial instruments are classified into one of five categories: fair value through profit and loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments are initially measured at fair value less transaction costs. All financial instruments are subsequently measured in the statement of financial position at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost.

Subsequent measurement and changes in fair value will depend on their initial classification, as follows:

- Fair value through profit and loss financial instruments are measured at fair value and changes in fair value are recognized in profit or loss;
- Available-for-sale financial assets are measured at fair value with changes in fair value recorded in other comprehensive income until the asset is derecognized or impaired at which time the amounts would be recorded in profit or loss;
- Loans and receivables, held to maturity investments, and other financial liabilities are measured at amortized cost using the effective interest method.

The Company has classified its financial instruments as follows:

- Fair value through profit and loss- cash
- Loans and receivables – accounts receivable and other receivables, and short-term loan receivable from related parties
- Other financial liabilities – accounts payable and accrued liabilities and due to investors, and due to related parties

Financial assets measured at amortized cost are assessed at the end of each reporting period whether there is any objective evidence of impairment.

The Company classifies its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's cash is measured as level 1 input.

EASTWOOD BIO-MEDICAL CANADA INC.  
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED JULY 31, 2018

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**2. Significant Accounting Policies**

(f) Cash

Cash consists of cash on hand and demand deposits.

(g) Accounts Receivable and Other Receivables

Accounts receivables and other receivables are presented net of allowance for doubtful accounts. The allowance for doubtful accounts reflects estimates of probable losses in accounts receivable. The allowance is determined based on balances outstanding for over 90 days from the invoice date, historical experience and other current information. The Company extends credit to customers and distributors; credit checks are required for all new distributors.

(h) Purchase Deposits and Prepaid Expenses

Purchase deposits and prepaid expenses are payments before the criteria for expense recognition have been met. The payment is expected to yield economic benefits over one or more future periods.

(i) Equipment

Equipment is stated at historical cost less accumulated amortization and accumulated impairment losses. Amortization is calculated on a declining balance method over their estimated useful lives. The Company's equipments, which consist of manufacturing equipments, are amortized at 30%.

(j) Share Capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and the fair value of brokers' options, share purchase options are recognized as a deduction from equity, net of any tax effects.

(k) Income Taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the statement of financial position liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences do not result in deferred tax assets or liabilities: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that in a transaction that is not a business combination and accounting or taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(l) Segment Reporting

The Company operates in a single reportable operating segment as a natural health supplement distribution company.

(m) Revenue

The Company generates revenue by acting as a distributor of EBMR pursuant to the License Agreement effective on November 1, 2012, the Current Agreement effective on March 17, 2014 and the MOU entered on June 19, 2015. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable by the Company, net of returns, sales taxes, discount and customs duties.

EASTWOOD BIO-MEDICAL CANADA INC.  
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED JULY 31, 2018

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**2. Significant Accounting Policies (continued)**

Revenue is recognized when the significant risk and rewards of ownership have been transferred to the buyer, usually upon receipt of the goods by customers. Pre-billed amounts are deferred and recognized when the goods have been received by customers. The Company has concluded that it is acting as a principal in all of its revenue arrangements.

As a principal, the Company obtains and validates a customer's order, purchases, arranges for shipment of the product to customers, collects payment from customers, and processes returns. The Company's product is shipped directly to customers using third-party carriers. Freight revenue is recognized the same time as the product sales revenue.

(n) Loss Per Share

Basic loss per share is computed by dividing net earnings loss (the numerator) by the weighted average number of outstanding common shares for the year (denominator). Escrow shares that are contingently returnable are not treated as outstanding and are excluded from the calculation of basic loss per share until the date the shares are no longer subject to recall. In computing diluted earnings per share, an adjustment is made for the dilutive effect of outstanding share options, warrants and other convertible instruments. In periods where a net loss is reported all outstanding options, warrants and other convertible instruments are excluded from the calculation of diluted loss per share, as they are all anti-dilutive.

(o) Newly adopted and future standards and interpretations not yet adopted

There is no amendment adopted for the fiscal nine months ended July 31, 2018.

The following standards are not effective until fiscal years beginning on or after November 1, 2017, and, unless otherwise indicated, have no effect on the Company's financial performance:

IFRS 9 Financial instruments

IFRS 9 was issued in November 2009 and subsequently amended as part of an ongoing project to replace IAS 39 Financial instruments: Recognition and measurement. The standard requires the classification of financial assets into two measurement categories based on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. The two categories are those measured at fair value and those measured at amortized cost. The classification and measurement of financial liabilities is primarily unchanged from IAS 39. However, for financial liabilities measured at fair value, changes in the fair value attributable to changes in an entity's "own credit risk" is now recognized in other comprehensive income instead of in profit or loss. This new standard will also impact disclosures provided under IFRS 7 Financial instruments: disclosures.

In November 2013, the IASB amended IFRS 9 for the significant changes to hedge accounting. In addition, an entity can now apply the "own credit requirement" in isolation without the need to change any other accounting for financial instruments. The standard was initially effective for annual periods beginning on or after January 1, 2013, but the complete version of IFRS 9, issued in July 2014, moved the mandatory effective date to January 1, 2018.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 is effective for periods beginning on or after January 1, 2018 and is to be applied retrospectively. IFRS 15 clarifies the principles for recognizing revenue from contracts with customers. IFRS 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (i.e. service revenue and contract modifications) and improve guidance for multiple-element arrangements. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning November 1, 2018, and may consider earlier adoption.

IAS 7 Statement of Cash Flows (Amendment)

In January 2016, the International Accounting Standards Board (IASB) issued amendments to IAS 7 which were incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in April 2016. The amendments are part of the IASB's Disclosure Initiative to address some of the concerns expressed about existing presentation and disclosure requirements. The amendments require entities to provide disclosures that enable users of the financial statements to evaluate both cash flow and non-cash changes in liabilities arising from financing activities. These amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted.

EASTWOOD BIO-MEDICAL CANADA INC.  
 NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS  
 FOR THE NINE MONTHS ENDED JULY 31, 2018

**2. Significant Accounting Policies (continued)**

**IAS 12 Income Taxes (Amendment)**

In January 2016, the International Accounting Standards Board (IASB) issued amendments to IAS 12 which were incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in April 2016. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value.

The amendments clarify the following aspects around the recognition of deferred tax assets for unrealized losses:

- Decreases in the carrying amount of a fixed-rate debt instrument for which the principal is paid on maturity give rise to a deductible temporary difference if the debt instrument is measured at fair value and its tax base remains at cost.
- An entity's estimate of future taxable profit may include amounts from assets it expects to recover in excess of their carrying amounts if there is sufficient evidence that it is probable the entity will achieve this.
- An entity's estimate of future taxable profit excludes tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses whether to recognize the tax effect of a deductible temporary difference as a deferred tax asset in combination with other deferred tax assets. If tax law restricts the utilization of tax losses so that an entity can only deduct tax losses against income of a specified type(s) (e.g. if it can deduct capital losses only against capital gains), the entity must still recognize a deferred tax asset in combination with other deferred tax assets, but only with deferred tax assets of the appropriate type.

These amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted.

**3. Accounts Receivable and Other Receivable**

	As at July 31, 2018	As at October 31, 2017
	\$	\$
Trade Receivable	85,933	13,571
Interest Receivable	28,780	11,094
Other Receivable	1,244	2,271
<b>Total</b>	<b>115,957</b>	<b>26,936</b>

The aging of trade receivable is as follows:

	As at July 31, 2018	As at October 31, 2017
	\$	\$
Current – 30 days	18,935	-
31 – 60 days	55,583	-
61 – 90 days	10,544	-
Over 90 days	871	13,571
<b>Total</b>	<b>85,933</b>	<b>13,571</b>

During the year ended October 31, 2017, \$2,066 of the trade receivables was recorded as bad debt as management has assessed the collection of such amount is uncertain.

EASTWOOD BIO-MEDICAL CANADA INC.  
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED JULY 31, 2018

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**4. Purchases Deposits and Prepaid Expenses**

The purchase deposits were paid to EBMR and will be expensed to cost of purchase upon receipt of the EBMR products. The prepaid management fee amount will be expensed to management fees when the expense occurs (see Note 8).

**5. Short-Term Loan Receivable from Related Parties**

During the year ended October 31, 2016, the Company entered into loan agreements with EBMR, for a total loan amount of \$1.44 million. The loan is secured against EBMR's real estate assets, repayable in 12 months and bears interest at 2 per cent per annum, payable annually in arrears. The proceeds of the loan will be used by EBMR for production facility improvements, equipment purchases, additional staffing, and research and development related to natural health products currently sold by the EBMR and the Company.

Pursuant to the loan agreement, EBMR has granted the Company the right to purchase the manufacturing business, comprising the land, buildings, equipment, manufacturing licenses, permits and other rights, operations, and know-how. The purchase right may be exercised at any time up to 24 months from the advance of the loan, at the market price of the business determined at the time of purchase.

During the year ended October 31, 2017, the Company entered into loan extension agreements with EBMR for another 12 months, for a total loan amount of \$1.44 million. The loan is secured against EBMR's real estate assets, repayable in 12 months and bears interest at 2 per cent per annum, payable annually in arrears. Pursuant to the original loan agreement, EBMR has granted the Company the right to purchase the manufacturing business, comprising the land, buildings, equipment, manufacturing licenses, permits and other rights, operations, and know-how. The purchase right may be exercised at any time up to 24 months from the advance of the loan, at the market price of the business determined at the time of purchase.

Since the interest rate of the loan is lower than market rates for similar loans, this loan is considered as a below market interest rate loan.

Fair market value of the loan is computed by discounting the future cash flows of the loans at the market rate of 5.7% per annum. The excess of the loan principal over the initial carrying amount of the loan is recorded as a reduction to share capital. Amount of \$53,245 is recorded as a reduction to share capital during the year ended October 31, 2017 (2016: 50,332).

During the year ended October 31, 2017, the Company arranged a financial loan in the amount of \$40,000 to EBMR. The loan bears the same interest of 2% per annum with a maturity date of June 24, 2018 and is secured against EBMR's real estate assets.

During the nine months ended July 31, 2018, the Company received a repayment of \$10,000 towards the principle of the loan from EBMR, \$50,729 (2017: \$66,542) interest revenue was included in other income in the statements of loss and comprehensive loss.

During the nine months ended July 31, 2018, the Company received a payment of \$nil (2017: \$28,879) in interests from EBMR.

During the nine months ended July 31, 2018, the Company has entered into an asset purchase agreement with EBMR, pursuant to which the Company exercised its right (see Note 5) to purchase certain manufacturing assets from EBMR by paying a purchase price of \$325,000. The principal amount of the loan has been reduced by the purchase price. The Company expensed \$4,223 in manufacturing expenses.

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**6. Equipment**

	Manufacturing Equipment
<b>Cost</b>	<b>\$</b>
Balance, October 31, 2017	-
Additions	320,777
Balance, July 31, 2018	320,777
<b>Accumulated Amortization</b>	
Balance, October 31, 2017	-
Amortization	18,456
Balance, July 31, 2018	18,456
<b>Carrying Value</b>	
As at October 31, 2017	-
<b>As at July 31, 2018</b>	<b>302,321</b>

**7. Share Capital**

a) Authorized Share Capital

Authorized: Unlimited Common Shares without par value

b) Issued Share Capital

As at July 31, 2018, there were 68,885,969 common shares (2017: 67,355,969) issued and outstanding.

c) Common Shares

During the year ended October 31, 2017, the Company completed a non-brokered private placement of 1,530,000 common shares at a price of 6.5 cents per share. The total gross proceeds received were \$97,553 (\$91,170,787 KRW received).

d) Escrow Shares

As at July 31, 2018, there were nil common shares held in escrow (2017: nil). The incorporation share is subject to the Escrow Agreement dated June 16, 2014 as well as the Performance Escrow Agreement dated June 16, 2014.

Under the Performance Escrow Agreement, the shares held in escrow are released at 25% increments every year upon the Company achieving predetermined annual net sales or annual net income target after the listing date.

e) Share Purchase Options

The Company has adopted an incentive share purchase option plan under the rules of the TSX Venture Exchange pursuant to which it is authorized to grant options to executive officers, directors, employees and consultants, enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. The options can be granted for a maximum term of 5 years and generally vest either immediately or in specified increments of 25%. No individual may hold options to purchase common shares of the Company exceeding 5% of the total number of common shares outstanding from time to time. Pursuant to the policies of the TSX Venture Exchange, shares issued on exercise of options are restricted from trading during the four month period subsequent to the date of grant.

The Company has issued no incentive stock options entitling the holders to acquire common shares of the Company at a specified price since incorporation other than the options granted to the Agent pursuant to the initial public offering. As at July 31, 2018, nil (2017: nil) option is outstanding and exercisable.

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**8. Related Party Transactions**

(i) Trading Transactions

During the nine months ended July 31, 2018, the Company incurred \$189,750 (2017: \$189,750) in management fee to EBMR, in return of the management and administrative services provided by EBMR.

During the nine months ended July 31, 2018, the Company incurred \$170,372 (2017: \$221,582) in purchase costs for purchases of products from EBMR at the pre-agreed upon purchase price as described in Note 1. The Company owed EBMR \$85,765 (2017: \$nil) in purchase costs.

(ii) Compensation of key management personnel

There was no remuneration of directors and other members of key management personnel during the nine months ended July 31, 2018 except below:

During the nine months ended July 31, 2018, amount of \$18,000 (2017: \$18,000) consulting fee was incurred/paid to the CFO and director of the Company for services provided.

During the nine months ended July 31, 2018, amount of \$27,000 (2017: \$27,000) consulting fee was incurred/paid to the CEO and director of the Company for services provided.

During the nine months ended July 31, 2018, amount of \$2,450 (2017: \$1,200) consulting fee was incurred/paid to the director of the Company for services provided.

Key management personnel were not paid post-employment benefits, termination benefits, or other long term benefits during the nine months ended July 31, 2018 and 2017.

**9. Financial Risk Management**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

Overview The Company's financial instruments consist of cash and cash equivalents, accounts receivable and other receivables, due from related parties, accounts payable and accrued liabilities and due to investors. The fair value of these financial instruments approximates their carrying value due to short term nature.

**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 cash is held with reputable institutions in Canada. The Company is not exposed to any material credit risk.

**Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash. At July 31, 2018, the Company had accounts payable and accrued liabilities of \$23,201 (2017: \$19,622), which are due in the short term (0 - 3 months) and due to investors of \$100 (2017: \$100).

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**9. Financial Risk Management (continued)**

**Market Risks**

The Company will be subject to normal market risks including fluctuations in foreign exchange rates and interest rates. While the Company manages its operations in order to minimize exposure to these risks, the Company has not entered into any derivatives or contracts to hedge or otherwise mitigate this exposure. For the nine months ended July 31, 2018, the Company held \$nil (October 31, 2017: \$nil) financial instruments subject to significant foreign exchange or interest rate risks.

**Capital Management**

The Company defines capital as all components of shareholders' equity. The Board of Directors does not establish quantitative return on capital criteria for management due to the nature of the Company's business.

The Company does not pay dividends and is not subject to any externally imposed capital requirements. There were no changes to the Company's approach to capital management for the nine months ended July 31, 2018.

**10. Commitments**

Effective on November 1, 2012, the Company entered into a Distribution and Licensing Agreement with EBMR ("License Agreement"), pursuant to which the Company became the exclusive distributor in Canada and non-exclusive distributor in the US for sales and distributing the EBMR's products. Pursuant to the License Agreement, the Company shall purchase the products from EBMR at pre-agreed upon purchase prices. The agreement will be valid for a period of ten years, and will automatically renew for subsequent terms of five years. Effective March 17, 2014, the Company amended and restated the License Agreement. Pursuant to this Amended and Restated Distribution and License Agreement (the "Current Agreement"), the pre-agreed upon purchase price was amended to pre-agreed upon percentage of the suggested retail price set by EBMR on products sold.

On December 12, 2012, the Company entered into Management and Administrative Service Agreement with EBMR ("Management Agreement"), pursuant to which the Company will make a payment of \$253,000 per year to EBMR in return for the management and support services provided by EBMR. There has been no change to the Management Agreement since 2012.

On June 19, 2015, the Company entered into a Memorandum of Understanding with EBMR ("MOU"), pursuant to which the Company is permitted to sell certain products to selected sub-distributors located in Asia. The Company shall purchase the products from EBMR at pre-agreed upon purchase price. EBMR retains the right to revoke the MOU at any time.

**11. Segmented Information**

The Company has one reportable business segment, being the distribution of Eleotin<sup>®</sup> products and related products in North America and Asia. Below is the breakdown of sales by geographical location:

Sales	Canada		U.S.		Asia		Total	
	\$	%	\$	%	\$	%	\$	%
July 31, 2018	90,349	28.1	145,734	45.4	85,079	26.5	321,162	100.0
July 31, 2017	210,114	55.8	166,755	44.2	-	-	376,869	100.0

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**12. Subsequent Events**

Subsequent to the nine months ended July 31, 2018, the Company proposes to settle the remaining outstanding balance of a loan in the amount of \$1,140,700 owed by Eastwood Bio-Medical Research Inc. (EBMR) under a loan agreement dated June 24, 2016.

Subject to approval by the TSX Venture Exchange, the Company proposes to settle the loan balance owed by EBMR in the following manner:

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**12. Subsequent Events (Continued)**

- The transfer of certain assets in and improvements to premises owned by EBMR and in which the Company's natural health products are produced, pursuant to a bill of sale for construction agreement to be entered into between the Company and EBMR: The purchase price for these assets will be \$265,000 and will be settled by the forgiveness by the company of \$265,000 of the loan balance owed by EBMR.
- Leasing commercial space in premises owned by EBMR (and to which the improvements were made) at a cost of \$72,000 per year for six years (\$432,000 total): The leasing cost will be paid by the forgiveness by the company of \$432,000 of the loan balance owed by EBMR.
- EBMR will enter into a consulting agreement with the company, pursuant to which the EBMR will manage the production of the Company's natural health products and pass on know how to the Company related to the production of those products. The services will be provided for a monthly consulting fee of \$3,000 over a period of six years. The aggregate consulting fees of \$216,000 will be paid through the forgiveness by the company of \$216,000 of the loan balance owed by EBMR. As part of this process, the Company will develop the expertise necessary to produce natural health products on its own, which will reduce future production costs.
- The Company and EBMR are parties to a management and administrative services agreement dated Dec. 12, 2012, as amended by an amending agreement dated June 1, 2014, pursuant to which EBMR provides management services to the Company. EBMR has agreed to reduce the management fees under the management agreement by 15 per cent over a six-year period. This amounts to a reduction of \$227,700 over this period. This amount of the loan balance will be forgiven by the Company as a result of said reduction in management fees.
- The Company entered a series of agreements to generate revenues from Asia, including revenues arising from the sales of books and nutraceutical teas.

**13. Comparative Amounts**

The comparative amounts presented in these financial statements have been reclassified where necessary to conform to the presentation used in the current year.