

**EASTWOOD BIO-MEDICAL CANADA INC.**

FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED OCTOBER 31, 2018 AND 2017

**EASTWOOD BIO-MEDICAL CANADA INC.**  
FOR THE YEARS ENDED OCTOBER 31, 2018 AND 2017

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Management's Responsibility

To the Shareholders of Eastwood Bio-Medical Canada Inc. (the "Company"):

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and Audit Committee are composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Board of Directors is also responsible for recommending the appointment of the Company's external auditors.

MNP LLP, an independent firm of Chartered Professional Accountants, is appointed by the shareholders to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

February 28, 2019

(signed)  
"Yunji Kim"  
\_\_\_\_\_  
President

(signed)  
"Peter Chen"  
\_\_\_\_\_  
CFO

Independent Auditors' Report

To the Shareholders of Eastwood Bio-Medical Canada Inc.:

We have audited the accompanying financial statements of Eastwood Bio-Medical Canada Inc., which comprise the statements of financial position as at October 31, 2018 and 2017, and the statements of loss and comprehensive loss, changes in equity and 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 financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Eastwood Bio-Medical Canada Inc. as at October 31, 2018 and 2017 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Vancouver, British Columbia  
February 28, 2019

  
Chartered Professional Accountants

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

As at	Notes	October 31, 2018	October 31, 2017
		\$	\$
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash		826,590	1,271,380
Accounts Receivable and Other Receivables	3	355,690	26,937
GST/HST Receivable		-	855
Purchase Deposits and Prepaid Expenses	4	3,183	81,650
Short-Term Loan Receivable from Related Parties	5	802,399	1,437,136
		<b>1,987,862</b>	<b>2,817,958</b>
<b>Equipment, Net</b>	6	<b>262,587</b>	<b>-</b>
<b>TOTAL ASSETS</b>		<b>2,250,449</b>	<b>2,817,958</b>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT</b>			
Accounts Payable and Accrued Liabilities		32,455	19,622
GST/HST Payable		979	-
Due to Investors		100	100
Deferred Revenue		13,337	13,917
Due to Related Parties	8	314,543	22,116
<b>TOTAL LIABILITIES</b>		<b>361,414</b>	<b>55,755</b>
<b>EQUITY</b>			
Share Capital	7	4,687,376	4,698,567
Reserves		9,514	9,514
Deficit		(2,807,855)	(1,945,878)
		<b>1,889,035</b>	<b>2,762,203</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2,250,449</b>	<b>2,817,958</b>

The accompanying notes are an integral part of the financial statements

These financial statements are authorized for issue by the Board of Directors on February 28, 2019

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

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Yunji Kim  
Director

“Peter Chen”

\_\_\_\_\_  
Peter Chen  
Director

**EASTWOOD BIO-MEDICAL CANADA INC.**  
**STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
**(EXPRESSED IN CANADIAN DOLLARS)**

	Notes	For the year ended October 31, 2018	For the year ended October 31, 2017,
		\$	\$
<b>Sales Revenue</b>		<b>730,721</b>	464,725
<b>Freight Revenue</b>		<b>13,252</b>	15,004
<b>Total Revenue</b>		<b>743,973</b>	479,729
<b>Cost of Purchases</b>		<b>361,298</b>	274,493
<b>Gross Profit</b>		<b>382,675</b>	205,236
<b>Expenses</b>			
Accounting and Audit Fees		42,000	41,860
Advertising and Marketing		176,511	105,050
Amortization	6	25,613	-
Bad Debt		-	2,066
Bank and Credit Card Charges		1,309	1,353
Consulting Fees	8	62,450	60,000
Foreign Exchange Loss		5,764	(7,547)
Investor Relations		8,061	7,289
Legal Fees		27,981	20,813
Listing Fees		10,061	9,758
Management Fees	8,11	253,000	253,000
Office Expenses		9,602	3,372
Shipping		19,003	17,036
Wages & Salaries		314,322	273,263
		<b>955,677</b>	787,313
<b>Other Income (Expenses)</b>			
Interest Income		78,435	93,825
Loss on settlement of loan	5	(369,401)	-
Other Income (Expenses)		1,991	(1,372)
		<b>(288,975)</b>	92,453
<b>NET LOSS AND COMPREHENSIVE LOSS</b>		<b>861,977</b>	489,624
Earnings Loss Per Share – Basic & Diluted		<b>0.01</b>	0.01
Weighted Average Number of Shares Outstanding – Basic & Diluted		<b>68,885,969</b>	67,502,681

The accompanying notes are an integral part of the financial statements

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

	Notes	Share Capital		Reserves	Deficit	Total Equity
		Number of Shares	Amount			
			\$	\$	\$	\$
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 Extended Loan	5	-	(53,245)	-	-	(53,245)
Share Issuance	7(c)	1,530,000	97,553	-	-	97,553
Net Loss		-	-	-	(489,624)	(489,624)
Balance as of October 31, 2017		68,885,969	4,698,567	9,514	(1,945,878)	2,762,203
Fair Value of Related Party Extended Loan	5	-	(11,191)	-	-	(11,191)
Net Loss		-	-	-	(861,977)	(861,977)
<b>Balance as of October 31, 2018</b>		<b>68,885,969</b>	<b>4,687,376</b>	<b>9,514</b>	<b>(2,807,855)</b>	<b>1,889,035</b>

The accompanying notes are an integral part of the financial statements

**EASTWOOD BIO-MEDICAL CANADA INC.**

**STATEMENTS OF CASH FLOWS  
(EXPRESSED IN CANADIAN DOLLARS)**

	Notes	For the year ended October 31, 2018	For the year ended October 31, 2017
		\$	\$
<b>OPERATING ACTIVITIES</b>			
Net Loss for the Year		<b>(861,977)</b>	(489,624)
Non-Cash Item:			
Bad Debt		-	2,066
Interest Income		<b>(55,496)</b>	(54,728)
Write-off of Inventories		-	2,797
Amortization	6	<b>25,613</b>	-
Loss on settlement of loan	5	<b>369,401</b>	-
Changes in Non-Cash Working Capital			
Accounts Receivable and Other Receivable		<b>(306,121)</b>	(8,130)
GST/HST Receivable		<b>1,834</b>	5,427
Purchase Deposits and Prepaid Expenses		<b>78,467</b>	176,264
Inventories		-	19,338
Short-Term Loan Receivable from Related Parties		<b>(11,191)</b>	(28,879)
Accounts Payable and Accrued Liabilities		<b>12,833</b>	15,620
Deferred Revenue		<b>(580)</b>	1,178
Due to Related Parties		<b>292,427</b>	3,392
Cash Used In Operating Activities		<b>(454,790)</b>	(355,279)
<b>INVESTING ACTIVITIES</b>			
Short-Term Loan to Related Party		-	(40,000)
Repayment on Loan Principal	5	<b>10,000</b>	10,000
Interest Payment on Loan		-	28,879
Cash Provided By (Used In) Investing Activities		<b>10,000</b>	(1,121)
<b>FINANCING ACTIVITIES</b>			
Proceeds from Share Issuance		-	97,553
Cash Provided By Financing Activities		-	97,553
DECREASE IN CASH		<b>(444,790)</b>	(258,847)
CASH – BEGINNING OF YEAR		<b>1,271,380</b>	1,530,227
CASH – END OF YEAR		<b>826,590</b>	1,271,380

The accompanying notes are an integral part of the financial statements

EASTWOOD BIO-MEDICAL CANADA INC.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR YEARS ENDED OCTOBER 31, 2018 AND 2017

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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.

**2. Significant Accounting Policies**

(a) Statement of Compliance

The financial statements of the Company comply with the 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 were approved by the Board of Directors for issuance on February 28, 2019.

(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.

EASTWOOD BIO-MEDICAL CANADA INC.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR YEARS ENDED OCTOBER 31, 2018 AND 2017

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

(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. and Korean 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. and Korean 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. Actual results could differ from the judgment.

*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.

EASTWOOD BIO-MEDICAL CANADA INC.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR YEARS ENDED OCTOBER 31, 2018 AND 2017

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

(iii) Useful lives of depreciable assets

The useful lives of depreciable assets have been determined based on management's estimated utility of the assets. Uncertainties in these estimates relate to technological obsolescence and wear and damage of assets.

(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.

(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.

EASTWOOD BIO-MEDICAL CANADA INC.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR YEARS ENDED OCTOBER 31, 2018 AND 2017

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

(i) Equipment

Equipment is stated at cost and depreciated over the useful lives. The estimated useful lives and depreciation methods are reviewed each year end, with the effect of any changes in estimate being accounted for on a prospective basis. Gains and losses on disposal of equipment are determined by comparing the proceeds from disposal with the carrying amount of equipment, and recognized net of costs associated with the disposal within other income in net loss for the period.

<u>Asset class</u>	<u>Depreciation term</u>
Machinery and equipment	3 to 15 years
Leasehold improvements	Useful life

(j) Impairment of long-lived assets

The carrying values of all equipment are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If any such indication exists, then the asset's recoverable amount is estimated.

The impairment analysis requires management to estimate the future cash flows expected to arise from operations and to make assumptions regarding economic factors, discount rates, tax rates, and annual growth rates. Actual operating results and the related cash flows could differ from the estimates used for the impairment analysis.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs of disposal. 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. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit ("CGU")).

An impairment loss is recorded when the recoverable amount of an asset or its CGU is less than its carrying amount. Impairment losses are evaluated for potential reversals when events or changes in circumstances warrant such consideration.

Where an impairment loss subsequently reverses, the carrying amount of the CGU is increased to the revised estimate of its recoverable amount, so long as the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the CGU in prior years.

The reversal of impairment requires management to re-assess several indicators that led to the impairment. It requires the valuation of the recoverable amount by estimating the future cash flows expected to arise from the CGU and the determination of a suitable discount rate in order to calculate its present value. Significant judgment is made in establishing these assumptions.

(k) 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.

(l) 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.

EASTWOOD BIO-MEDICAL CANADA INC.  
NOTES TO THE FINANCIAL STATEMENTS  
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**2. Significant Accounting Policies** (continued)

(l) Income Taxes (continued)

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.

(m) Segment Reporting

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

(n) 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.

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.

(o) 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.

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

The following amendments are adopted for the fiscal year ended October 31, 2018.

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. Adoption of the above amendment had no material impact on the Company's financial statements.

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.

EASTWOOD BIO-MEDICAL CANADA INC.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR YEARS ENDED OCTOBER 31, 2018 AND 2017

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

(q) Newly adopted and future standards and interpretations not yet adopted (continued)

IAS 12 Income Taxes (Amendment) (continued)

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. Adoption of the above amendments had no material impact in the Company's financial statements.

The following standards are not effective until fiscal years beginning on or after November 1, 2018, and, unless otherwise indicated, have no material impact on the Company's financial performance. The Company has not early adopted any standard, amendment or interpretation that has been issued by the IASB but is not yet effective:

IFRS 9 Financial instruments (New)

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 9 Financial instruments (Amendment)

In October 2017, the International Accounting Standards Board (IASB) issued amendments to IFRS 9 Financial Instruments, incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in November 2017, to address the classification of certain prepayable financial assets.

The amendments clarify that a financial asset that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature with negative compensation may be eligible to be measured at either amortized cost or fair value through other comprehensive income. This classification is subject to the assessment of the business model in which the particular financial asset is held as well as consideration of whether certain eligibility conditions are met. The amendments are effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted.

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.

EASTWOOD BIO-MEDICAL CANADA INC.  
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**2. Significant Accounting Policies** (continued)

IFRS 15 Revenue from Contracts with Customers (Amendment)

In April 2016, the International Accounting Standard Board (IASB) issued amendments to IFRS 15 to clarify some requirements and provide additional transitional relief for entities implementing IFRS 15. The amendments clarify how to:

- Identify a performance obligation (the promise to transfer a good or a service to customer) in a contract;
- Determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and
- Determine whether the revenue from granting a license should be recognized at a point in time or over time.

The amendments also include two additional reliefs to reduce cost and complexity for an entity when it first applies IFRS 15. The amendments are effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

IFRS 16 Leases

In January 2016, the International Accounting Standards Board (IASB) issued a new International Financial Reporting Standard (IFRS) on lease accounting which was incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in June 2016. IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 introduces a single lessee accounting model that requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Lease assets and liabilities are initially recognized on a present value basis and subsequently, similarly to other non-financial assets and financial liabilities, respectively. The lessor accounting requirements are substantially unchanged and, accordingly, continue to require classification and measurement as either operating or finance leases. The new standard also introduces detailed disclosure requirements for both the lessee and lessor.

The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that also apply IFRS 15 Revenue from Contracts with Customers.

**3. Accounts Receivable and Other Receivable**

	As at October 31, 2018	As at October 31, 2017
	\$	\$
Trade Receivable	321,624	13,571
Interest Receivable (Note 5)	34,066	11,094
Other Receivable	-	2,271
<b>Total</b>	<b>355,690</b>	<b>26,936</b>

The aging of trade receivable is as follows:

	As at October 31, 2018	As at October 31, 2017
	\$	\$
Current – 30 days	252,132	-
31 – 60 days	42,160	-
61 – 90 days	11,280	-
Over 90 days	16,052	13,571
<b>Total</b>	<b>321,624</b>	<b>13,571</b>

During the year ended October 31, 2018, \$nil (2017: \$2,066) of the trade receivables was recorded as bad debt as management has assessed the collection of such amount is uncertain.

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**4. Purchases Deposits and Prepaid Expenses**

	As at October 31, 2018	As at October 31, 2017
	\$	\$
Prepaid Expenses	3,183	-
Purchase Deposits	-	81,650
<b>Total</b>	<b>3,183</b>	<b>81,650</b>

The purchase deposits paid to EBMR has been fully expensed to cost of purchase upon receipt of the EBMR products during the year ended October 31, 2018 (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. During the year ended October 31, 2018, the Company entered into another loan extension agreement with EBMR to extend the loan to September 24, 2018. 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 \$11,191 is recorded as a reduction to share capital during the year ended October 31, 2018 (2017: \$53,245).

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 year ended October 31, 2018, the Company received \$nil (2017 - \$28,879) in interest revenue and a repayment of \$10,000 (2017 - \$10,000) towards the principle of the loan from EBMR, \$67,083 (2017 - \$83,614) interest revenue was included in other income in the statements of loss and comprehensive loss.

During the year ended October 31, 2018, the Company has entered into an asset purchase agreement with EBMR, pursuant to which the Company exercised its right 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 manufacturing assets' fair value were assessed to be \$288,200 and \$36,800 was recorded as loss on settlement of loan. The Company expensed \$4,223 in manufacturing expenses.

In addition, the Company proposed to settle the remaining outstanding balance of a loan owed by EBMR under the original loan agreement dated June 24, 2016 through the acquisition transaction disclosed in subsequent event note (see Note 13). The Company's assessed fair value of the assets received in the transaction and as a result, \$332,601 was recorded as loss on settlement of loan.

The balance of the loan as at October 31, 2018 was \$802,399 (2017 - \$1,437,136).

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**6. Equipment**

	Manufacturing Equipment
<b>Cost</b>	\$
Balance, October 31, 2017 and 2016	-
Additions	288,200
<b>Balance, October 31, 2018</b>	<b>288,200</b>
<b>Accumulated Amortization</b>	
Balance, October 31, 2017 and 2016	-
Amortization	25,613
<b>Balance, October 31, 2018</b>	<b>25,613</b>
<b>Carrying Value</b>	
As at October 31, 2017	-
<b>As at October 31, 2018</b>	<b>262,587</b>

**7. Share Capital**

a) Authorized Share Capital

Authorized: Unlimited Common Shares without par value

b) Issued Share Capital

As at October 31, 2018, there were 68,885,969 common shares (2017: 68,885,969) 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) 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 October 31, 2018, nil (2017: nil) option is outstanding and exercisable.

**8. Related Party Transactions**

(i) Transactions and balances with EBMR

During the year ended October 31, 2018, the Company incurred \$253,000 (2017: \$253,000) in management fees to EBMR (see Note 11), in return for the management and administrative services provided by EBMR.

During the year ended October 31, 2018, the Company incurred \$345,512 (2017: \$159,474) in purchase costs for purchases of products from EBMR at the pre-agreed upon purchase price as described in Note 1. As of October 31, 2018, the Company has \$nil of purchases deposits (2017: \$81,650) made to EBMR.

During the year ended October 31, 2018, the Company purchased \$nil (2017: \$87,359) inventories from EBMR for manufacturing orders from a third-party distributor.

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**8. Related Party Transactions** (continued)

(i) Transactions and balances with EBMR (continued)

During the year ended October 31, 2018, a total of \$339,586 (2017: \$266,171) products were bought from EBMR and sold as of October 31, 2018.

As of October 31, 2018, amount of \$291,892 (2017: \$5,269) was due to EBMR, at zero interest and due on demand.

Also see Note 5 for short-term loan receivable from EBMR.

(ii) As at October 31, 2018, \$22,652 (2017: \$16,847) was due to the CEO and director of the Company for business expenses paid by her on behalf of the Company.

(iii) Compensation of key management personnel

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

During the year ended October 31, 2018, amount of \$2,450 (2017: \$1,200) accounting fee was incurred/paid to a director of the Company for accounting and consulting services provided.

During the year ended October 31, 2018, amount of \$24,000 (2017: \$24,000) consulting fee was incurred/paid to the CFO and director of the Company for services provided.

During the year ended October 31, 2018, amount of \$36,000 (2017: \$36,000) consulting fee was incurred/paid to the CEO and director of the Company for services provided.

Key management personnel were not paid post-employment benefits, termination benefits, or other long term benefits for the years ended October 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, 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 refers to the risk of losses due to failure of the Company's customers and counterparties to meet their payment obligations. In the normal course of business, the Company is exposed to credit risk from its end-users and distributors. The Company performs ongoing credit evaluations of new and existing customers' financial condition, and reviews the collectability of its trade accounts receivable in order to mitigate any possible credit losses. The Company has accounts receivable outstanding greater than 90 days past due and maintains an allowance for doubtful accounts relating to specific losses estimated on individual exposure. Average accounts receivable days sales outstanding for the year is consistent with historic trends. The Company views credit risk on accounts receivables as minimal.

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

The Company is also exposed to credit risk on its short-loan receivable as described in Note 5. Management believes that this credit risk is limited given that the loan has been subsequently settled as described in Note 13.

Furthermore, the Company's cash is held with reputable institutions in Canada. The Company views credit risk on cash as minimal.

**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 October 31, 2018, the Company had accounts payable and accrued liabilities of \$34,805 (2017: \$19,622), which are due in the short term (0 - 3 months) and due to investors of \$100 (2017: \$100), and due to related parties of \$314,543 (2017: \$22,116), which are due on demand.

**Interest Risk**

The Company will be subject to fluctuations in 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 year ended October 31, 2018, the Company held \$nil (2017: \$nil) financial instruments subject to significant interest rate risks.

**Foreign Currency Risk**

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company is exposed to currency risk as it has sales to the United States and it incurs certain expenditures that are denominated in US dollars while its functional currency is the Canadian dollar. The Company does not hedge its exposure to fluctuations in foreign exchange rates. The Company has net financial assets of approximately \$67,481 (2017: \$1,658) that are denominated in US dollars. A 10% change in the US dollars to the Canadian dollar exchange rate would impact the Company's net loss and comprehensive loss by \$6,748 (2017: \$166).

The Company also has net financial assets of approximately \$57,482 (2017 - \$103,935) that are denominated in South Korean Won. A 10% change in the South Korean Won to the Canadian dollar exchange rate would impact the Company's net loss and comprehensive loss by \$5,748 (2017 - \$10,393).

**Concentration Risk**

At October 31, 2018, one customer represented 99% of the Company's accounts receivable balance (2017: 94%). During the year ended October 31, 2018, the Company had one customer that provided 51% of the Company's sales revenue. (2017: 32%).

**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 year ended October 31, 2018.

**10. Income Tax**

The following table reconciles the expected income taxes expense (recovery) at the Canadian statutory income tax rates to the amounts recognized in the statements of operations for the years ended October 31, 2018 and 2017:

	2018	2017
	\$	\$
Net loss before tax	(861,977)	(489,624)
Statutory tax rate	26.83%	26%
Expected income tax (recovery)	(231,297)	(127,302)
Non-deductible (taxable) amounts	99,122	(8,932)
Change in deferred tax asset not recognized	132,175	136,234
Total income tax expense (recovery)	-	-

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**10. Income Tax** (continued)

The statutory tax rate increased from 26% to 26.83% due to an increase in the BC corporate tax rate on January 1, 2018.

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their corresponding values for tax purposes. The unrecognized deductible temporary differences at October 31, 2018 and 2017 are as follows:

	2018	2017
	\$	\$
Financing cost	-	26,881
Equipment	25,613	-
Short-term loan receivable from related parties	-	32,864
Non capital loss carryforwards	2,652,162	2,125,454
Unrecognized deductible temporary differences	<u>2,677,776</u>	<u>2,185,199</u>

As at October 31, 2018, the Company has not recognized a deferred tax asset in respect of non-capital loss carryforwards of approximately \$2,652,162 (2017: \$2,125,454) which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

Expiry	\$
2031	30,897
2032	38,117
2033	139,282
2034	545,979
2035	287,262
2036	512,678
2037	571,239
2038	526,708
<b>TOTAL</b>	<b><u>2,652,162</u></b>

**11. 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 nonexclusive 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 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.

On September 7, 2018, the Company entered into the following agreements with EBMR for the period from November 1, 2018 to October 31, 2024, to which the funds will be used toward reducing the remaining outstanding loan receivable balance (Note 13):

- Leasing agreements where the Company will lease the commercial space in premises owned by EBMR for \$72,000 per year for six years;
- Management and Administrative Service Agreement ("Management Agreement") to reduce the management fee under the Management Agreement dated December 12, 2012 to \$215,050 per year to EBMR in return for management and support services provided by EBMR.
- Consulting agreement where 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 at \$3,000 per month. 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.

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**11. Commitments** (continued)

The table below shows the commitments resulted from the above agreements with EBMR.

<b>Year</b>	<b>Amount</b>
	\$
2018	53,842
2019	323,050
2020	323,050
2021	323,050
2022+	592,258
	1,615,250

**12. Segmented Information**

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

Sales	Canada		U.S.		Asia		Total	
	\$	%	\$	%	\$	%	\$	%
October 31, 2018	118,931	16.2	205,808	28.2	405,982	55.6	730,721	100.0
October 31, 2017	245,411	52.8	219,314	47.2	-	-	464,725	100.0

**13. Subsequent Events**

Subsequent to the year ended October 31, 2018, the Company received approval from TSX Venture Exchange to settle the remaining outstanding balance of the loan owed by EBMR under a loan agreement dated June 24, 2016 (Note 5 and 11). Management has assessed this transaction as a business combination under common control and has accounted for this transaction using the acquisition method under IFRS 3.