



Condensed Consolidated Interim Financial Statements

**Three and six months ended March 31, 2017 and 2016**

(Unaudited – prepared by management)  
(expressed in thousands of Canadian dollars)

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**NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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, the financial statements must be accompanied by a notice indicating that they have not been reviewed by an auditor.

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by CPA (Chartered Professional Accountants) Canada for a review of interim financial statements by an entity's auditor.

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# EnWave Corporation

## Condensed Consolidated Interim Statements of Financial Position

(Unaudited, expressed in thousands of Canadian dollars)

|  | Note  | March 31,<br>2017<br>\$ | September 30,<br>2016<br>\$ |
|--|-------|-------------------------|-----------------------------|
| <b>Assets</b>                              |       |                         |                             |
| <b>Current assets</b>                      |       |                         |                             |
| Cash and cash equivalents                  | 5(a)  | 2,769                   | 4,590                       |
| Restricted cash                            | 5(b)  | 250                     | 250                         |
| Trade receivables                          | 6     | 954                     | 770                         |
| Receivable from related parties            | 12(e) | 271                     | 426                         |
| Due from customers on contract             | 14(a) | 2,988                   | 1,542                       |
| Prepays and other receivables              | 7     | 204                     | 190                         |
| Inventory                                  | 8     | 2,396                   | 1,681                       |
|  |       | <b>9,832</b>            | <b>9,449</b>                |
| <b>Non-current assets</b>                  |       |                         |                             |
| Plant and equipment                        |       | 3,239                   | 3,679                       |
| Intangible assets                          |       | 1,359                   | 1,834                       |
|  |       | <b>4,598</b>            | <b>5,513</b>                |
| <b>Total assets</b>                        |       | <b>14,430</b>           | <b>14,962</b>               |
| <b>Liabilities</b>                         |       |                         |                             |
| <b>Current liabilities</b>                 |       |                         |                             |
| Trade and other payables                   | 9     | 1,937                   | 1,084                       |
| Amounts due to related parties             | 12(d) | 83                      | 182                         |
| Customer deposits and deferred revenue     | 14(a) | 730                     | 700                         |
| Current portion of other liability         | 11(b) | 323                     | 586                         |
|  |       | <b>3,073</b>            | <b>2,552</b>                |
| <b>Non-current liabilities</b>             |       |                         |                             |
| Amounts due to related parties             | 12(d) | 131                     | 164                         |
| Long-term portion of other liability       | 11(b) | -                       | 37                          |
|  |       | <b>131</b>              | <b>201</b>                  |
| <b>Total liabilities</b>                   |       | <b>3,204</b>            | <b>2,753</b>                |
| <b>Equity</b>                              |       |                         |                             |
| Attributable to shareholders of the parent |       |                         |                             |
| Share capital                              | 10(b) | 54,929                  | 54,905                      |
| Warrants                                   | 10(c) | 749                     | 749                         |
| Contributed surplus                        |       | 6,801                   | 6,446                       |
| Foreign currency translation reserve       |       | 513                     | 495                         |
| Deficit                                    |       | (53,333)                | (51,808)                    |
|  |       | <b>9,659</b>            | <b>10,787</b>               |
| Non-controlling interest                   |       | 1,567                   | 1,422                       |
| <b>Total equity</b>                        |       | <b>11,226</b>           | <b>12,209</b>               |
| <b>Total liabilities and equity</b>        |       | <b>14,430</b>           | <b>14,962</b>               |
| <b>Contingencies and commitments</b>       |       |                         |                             |

# EnWave Corporation

## Condensed Consolidated Interim Statements of Net Loss

### For the three and six months ended March 31, 2017 and 2016

(Unaudited, expressed in thousands of Canadian dollars, except per share data)

|  |       | Three months ended      |                         | Six months ended        |                         |
|--|-------|-------------------------|-------------------------|-------------------------|-------------------------|
|  |       | March 31,<br>2017<br>\$ | March 31,<br>2016<br>\$ | March 31,<br>2017<br>\$ | March 31,<br>2016<br>\$ |
| <b>Revenues</b>  | 14    | <b>4,183</b>            | 4,586                   | <b>7,650</b>            | 7,190                   |
| <b>Direct costs</b>  |       | <b>(3,155)</b>          | (2,911)                 | <b>(5,838)</b>          | (4,654)                 |
|  |       | <b>1,028</b>            | 1,675                   | <b>1,812</b>            | 2,536                   |
| <b>Expenses</b>  |       |                         |                         |                         |                         |
| General and administration   |       | <b>523</b>              | 466                     | <b>1,058</b>            | 839                     |
| Sales and marketing  |       | <b>396</b>              | 133                     | <b>701</b>              | 238                     |
| Research and development   |       | <b>300</b>              | 515                     | <b>591</b>              | 1,049                   |
| Amortization of intangible assets  |       | <b>220</b>              | 345                     | <b>474</b>              | 703                     |
| Stock-based compensation   | 10(d) | <b>339</b>              | 50                      | <b>361</b>              | 87                      |
| Foreign exchange loss (gain)   |       | <b>18</b>               | 67                      | <b>9</b>                | 15                      |
| Finance expense (income), net  |       | <b>11</b>               | 4                       | <b>15</b>               | (7)                     |
|  |       | <b>1,807</b>            | 1,580                   | <b>3,209</b>            | 2,924                   |
| <b>(Loss) income for the period from continuing operations</b>           |       | <b>(779)</b>            | 95                      | <b>(1,397)</b>          | (388)                   |
| <b>Discontinued operations</b>   |       |                         |                         |                         |                         |
| Net loss for the period from discontinued operations                     | 4     | -                       | (86)                    | -                       | (86)                    |
| <b>Net (loss) income for the period</b>                                  |       | <b>(779)</b>            | 9                       | <b>(1,397)</b>          | (474)                   |
| <b>Net (loss) income attributed to:</b>                                  |       |                         |                         |                         |                         |
| Shareholders of the parent company                                       |       | <b>(835)</b>            | (79)                    | <b>(1,525)</b>          | (545)                   |
| Non-controlling interest   |       | <b>56</b>               | 88                      | <b>128</b>              | 71                      |
|  |       | <b>(779)</b>            | 9                       | <b>(1,397)</b>          | (474)                   |
| <b>Basic and diluted loss per common share</b>                           |       |                         |                         |                         |                         |
| Continuing operations  |       | <b>(0.01)</b>           | 0.00                    | <b>(0.02)</b>           | (0.01)                  |
| Discontinued operations  |       | -                       | (0.00)                  | -                       | (0.00)                  |
|  |       | <b>(0.01)</b>           | 0.00                    | <b>(0.02)</b>           | (0.01)                  |
| <b>Weighted average number of shares outstanding – basic and diluted</b> |       | <b>90,790,980</b>       | 90,772,759              | <b>90,783,179</b>       | 90,055,546              |

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

# EnWave Corporation

## Condensed Consolidated Interim Statements of Comprehensive Loss For the three and six months ended March 31, 2017 and 2016

(Unaudited, expressed in thousands of Canadian dollars)

|  | Three months ended      |                         | Six months ended        |                         |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
|  | March 31,<br>2017<br>\$ | March 31,<br>2016<br>\$ | March 31,<br>2017<br>\$ | March 31,<br>2016<br>\$ |
| <b>Net (loss) income for the period</b>                                  | <b>(779)</b>            | <b>9</b>                | <b>(1,397)</b>          | <b>(474)</b>            |
| <b>Other comprehensive loss</b>  |                         |                         |                         |                         |
| <b>Items that may be subsequently reclassified<br/>to profit or loss</b> |                         |                         |                         |                         |
| Foreign exchange translation   | <u>(25)</u>             | <u>(161)</u>            | <u>35</u>               | <u>(68)</u>             |
| <b>Total comprehensive loss for the period</b>                           | <b><u>(804)</u></b>     | <b><u>(152)</u></b>     | <b><u>(1,362)</u></b>   | <b><u>(542)</u></b>     |
| <b>(Loss) income attributed to:</b>                                      |                         |                         |                         |                         |
| Shareholders of the parent company                                       | <u>(848)</u>            | <u>(213)</u>            | <u>(1,507)</u>          | <u>(582)</u>            |
| Non-controlling interest   | <u>44</u>               | <u>61</u>               | <u>145</u>              | <u>40</u>               |
| <b>Total comprehensive loss for the period</b>                           | <b><u>(804)</u></b>     | <b><u>(152)</u></b>     | <b><u>(1,362)</u></b>   | <b><u>(542)</u></b>     |
| <b>Total comprehensive loss arising from:</b>                            |                         |                         |                         |                         |
| Continuing operations  | <u>(804)</u>            | <u>(66)</u>             | <u>(1,362)</u>          | <u>(456)</u>            |
| Discontinued operations  | <u>-</u>                | <u>(86)</u>             | <u>-</u>                | <u>(86)</u>             |
|  | <b><u>(804)</u></b>     | <b><u>(152)</u></b>     | <b><u>(1,362)</u></b>   | <b><u>(542)</u></b>     |

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

# EnWave Corporation

## Condensed Consolidated Interim Statements of Changes in Equity

(Unaudited, expressed in thousands of Canadian dollars)

|   | Attributable to shareholders of the parent |        |          |                     |                                      |          |         | Non-controlling interest | Total equity |
|---|--|--------|----------|---------------------|--------------------------------------|----------|---------|--------------------------|--------------|
|   | Share capital                              |        | Warrants | Contributed surplus | Foreign currency translation reserve | Deficit  | Total   |                          |              |
|   | Amount                                     | Value  |          |                     |                                      |          |         |                          |              |
|   |  | \$     | \$       | \$                  | \$                                   | \$       | \$      | \$                       |              |
| <b>Balance – September 30, 2015</b>     | 84,522,759                                 | 51,204 | 586      | 5,461               | 511                                  | (49,693) | 8,069   | 1,242                    | 9,311        |
| Net (loss) income for the period        | -  | -      | -        | -                   | -                                    | (545)    | (545)   | 71                       | (474)        |
| Effects of foreign currency translation | -  | -      | -        | -                   | (37)                                 | -        | (37)    | (31)                     | (68)         |
| Shares issued with private placement    | 6,250,000                                  | 4,234  | 845      | -                   | -                                    | -        | 5,079   | -                        | 5,079        |
| Share issue costs                       | -  | (533)  | (96)     | -                   | -                                    | -        | (629)   | -                        | (629)        |
| Warrants expired                        | -  | -      | (586)    | 586                 | -                                    | -        | -       | -                        | -            |
| Restricted share rights                 | -  | -      | -        | 15                  | -                                    | -        | 15      | -                        | 15           |
| Stock-based compensation                | -  | -      | -        | 72                  | -                                    | -        | 72      | -                        | 72           |
| <b>Balance – March 31, 2016</b>         | 90,772,759                                 | 54,905 | 749      | 6,134               | 474                                  | (50,238) | 12,024  | 1,282                    | 13,306       |
| Net (loss) income for the period        | -  | -      | -        | -                   | -                                    | (1,570)  | (1,570) | 121                      | (1,449)      |
| Effects of foreign currency translation | -  | -      | -        | -                   | 21                                   | -        | 21      | 19                       | 40           |
| Restricted share rights                 | -  | -      | -        | 23                  | -                                    | -        | 23      | -                        | 23           |
| Stock-based compensation                | -  | -      | -        | 289                 | -                                    | -        | 289     | -                        | 289          |
| <b>Balance – September 30, 2016</b>     | 90,772,759                                 | 54,905 | 749      | 6,446               | 495                                  | (51,808) | 10,787  | 1,422                    | 12,209       |
| Net (loss) income for the period        | -  | -      | -        | -                   | -                                    | (1,525)  | (1,525) | 128                      | (1,397)      |
| Effects of foreign currency translation | -  | -      | -        | -                   | 18                                   | -        | 18      | 17                       | 35           |
| Shares issued on exercise of options    | 23,333                                     | 24     | -        | (6)                 | -                                    | -        | 18      | -                        | 18           |
| Restricted share rights                 | -  | -      | -        | 28                  | -                                    | -        | 28      | -                        | 28           |
| Stock-based compensation                | -  | -      | -        | 333                 | -                                    | -        | 333     | -                        | 333          |
| <b>Balance – March 31, 2017</b>         | 90,796,092                                 | 54,929 | 749      | 6,801               | 513                                  | (53,333) | 9,659   | 1,567                    | 11,226       |

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

# EnWave Corporation

## Condensed Consolidated Interim Statements of Cash Flows

### For the six months ended March 31, 2017 and 2016

(Unaudited, expressed in thousands of Canadian dollars)

|   | Note  | Six months ended March 31, |              |
|---|-------|----------------------------|--------------|
|   |       | 2017                       | 2016         |
|   |       | \$                         | \$           |
| <b>Cash flows from operating activities</b>                 |       |                            |              |
| Net loss for the period                                     |       | (1,397)                    | (388)        |
| Items not affecting cash                                    |       |                            |              |
| Depreciation and amortization                               |       | 966                        | 1,167        |
| Stock-based compensation                                    | 10(d) | 361                        | 87           |
| Finance expense (income), net                               |       | 15                         | (7)          |
| Foreign exchange loss                                       |       | 9                          | 15           |
|   |       | <u>(46)</u>                | <u>874</u>   |
| Changes in non-cash working capital                         |       |                            |              |
| Trade receivables   |       | (206)                      | 300          |
| Prepays and other receivables                               |       | (13)                       | 16           |
| Inventory   |       | (776)                      | (1,080)      |
| Trade and other payables                                    |       | 961                        | 106          |
| Due to/from related parties                                 |       | (15)                       | 906          |
| Due from customers on contract and deferred revenue         |       | (1,416)                    | 32           |
|   |       | <u>(1,511)</u>             | <u>1,154</u> |
| Net cash (used in) generated from operating activities      |       |                            |              |
| <b>Cash flows from investing activities</b>                 |       |                            |              |
| Acquisition of plant and equipment                          |       | (109)                      | (546)        |
| Finance income received                                     |       | 15                         | 50           |
|   |       | <u>(94)</u>                | <u>(496)</u> |
| Net cash used in investing activities                       |       |                            |              |
| <b>Cash flows from financing activities</b>                 |       |                            |              |
| Proceeds from private placement                             | 10(b) | -                          | 5,000        |
| Share issue costs   | 10(b) | -                          | (550)        |
| Proceeds from exercise of stock options                     | 10(d) | 18                         | -            |
| Payment of other liability                                  | 11(b) | (264)                      | (304)        |
|   |       | <u>(246)</u>               | <u>4,146</u> |
| Net cash (used in) generated from financing activities      |       |                            |              |
| <b>Effect of foreign exchange translation on cash</b>       |       | <u>30</u>                  | <u>(56)</u>  |
| <b>(Decrease) increase in cash and cash equivalents</b>     |       | <u>(1,821)</u>             | <u>4,748</u> |
| <b>Cash and cash equivalents - Beginning of the period</b>  |       | <u>4,590</u>               | <u>1,101</u> |
| <b>Cash and cash equivalents - End of the period</b>        |       | <u>2,769</u>               | <u>5,849</u> |
| <b>Non-cash transactions</b>                                |       |                            |              |
| Agent's warrants issued for share issue costs               |       | -                          | 67           |
| Acquisition of plant and equipment through accounts payable |       | (16)                       | 19           |

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

# EnWave Corporation

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements (Unaudited, expressed in thousands of Canadian dollars)

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### 1 Nature of operations

EnWave Corporation (“EnWave”) was incorporated under the Canada Business Corporations Act on July 14, 1999. The Company’s principal business is the design, construction, marketing and sales of microwave-vacuum food and biomaterial dehydration machines that utilize proprietary dehydration technologies developed by the Company.

The registered office of the Company is 1000 Cathedral Place - 925 West Georgia Street, Vancouver, BC V6C 3L2, Canada.

The Company holds a 51% partnership interest in NutraDried, LLP (“NutraDried”), a partnership formed in the United States of America. NutraDried develops, manufactures, markets and sells certain dehydrated food products under the Company’s nutraDRIED™ trademark throughout North America. NutraDried Creations, LLP (“Creations”) owns the remaining 49% partnership interest in NutraDried. EnWave and NutraDried are collectively referred to as “the Company”.

The Company held an 86.5% controlling interest in the shares of Hans Binder Maschinenbau GmbH (“Binder”) located in Germany, a manufacturer of conventional dehydration equipment. The principal activities of Binder were designing, manufacturing and selling of conventional dehydration equipment. On September 29, 2015, EnWave ceased to control Binder when Binder filed for insolvency under German insolvency code. As of September 29, 2015, the Company no longer consolidates Binder, as it is no longer able to govern the financial and operating activities or generate returns for the Company (note 4).

### 2 Basis of preparation

#### Statement of compliance

These condensed consolidated interim financial statements (“interim financial statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) as applicable to the preparation of interim financial statements, as set out in International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*. They do not include all the information required for a complete set of IFRS financial statements and should be read in conjunction with the audited annual consolidated financial statements of the Company for the year ended September 30, 2016. There are selected explanatory notes included to explain events and transactions that are significant to an understanding of the changes in the Company’s financial position and performance since the last annual consolidated financial statements as at and for the year ended September 30, 2016.

These interim financial statements were approved for issuance by the Board of Directors for issue on May 25, 2017.

#### Critical accounting estimates

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates. The Company regularly reviews its estimates and assumptions; however, it is possible that circumstances may arise which may cause actual



# EnWave Corporation

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Unaudited, expressed in thousands of Canadian dollars)

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results to differ from management estimates, and these differences could be material. Estimates and underlying assumptions are reviewed on an ongoing basis and revisions to estimates are recorded prospectively.

### *Revenue recognition*

The recognition of revenue as of the consolidated statement of financial position date requires management to make significant estimates primarily relating to the percentage-of-completion method to determine the amount of revenue to recognize. The stage of completion is measured by reference to the actual contract costs incurred as a percentage of total estimated costs for each contract. If the total actual contract costs were to differ by 10% from management's estimated contract costs, the amount of revenue recognized in the period would be increased or decreased by \$536 (2016 - \$194).

### *Impairment of inventory*

The Company measures inventory at the lower of cost and net realizable value, and in the event the net realizable value exceeds cost, an impairment charge is recorded. This determination requires judgement, which includes, among other factors, the selling price, less the estimated costs of completion and selling expenses.

### *Impairment of non-financial assets*

At each reporting date, the Company assesses its non-financial assets to determine whether there are any indications of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated. Non-financial assets that do not generate independent cash flows are grouped together into a cash generating unit ("CGU"), which represents the lowest level at which largely independent cash flows are generated. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations require the use of estimates and assumptions.

### *Other liability*

The Company entered into a license agreement for the sub-licensing rights to the MIVAP® technology. The fair value of the liability on initial recognition was added to the cost of the intangible asset at the date of purchase. The liability is measured at the end of each reporting period, and changes are recorded in the consolidated statement of loss.

The Company estimates the liability based on the present value of minimum royalties payable to INAP GmbH (Industrie-Anlagen-Planung - "INAP"), a private German company, over the life of the agreement discounted at prevailing market rates. The potential variability of this estimate is significant given that it will be highly sensitive to the number of additional sub-licensees and their ultimate use of the technology. The measurement of the liability could change depending on the Company's ultimate use of the technology which gives rise to the royalty.

### *Leases*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of loss on a straight-line basis over the period of the lease.

# EnWave Corporation

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Unaudited, expressed in thousands of Canadian dollars)

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The Company leases certain plant and equipment and assesses whether substantially all the risks and rewards of ownership rest with the Company or the lessee.

When the Company determines that substantially all the risks and rewards of ownership rest with the Company, the Company records the lease payments earned; however, when assessed as a finance lease, the amounts are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

### *Warranty provision*

The Company recognizes revenue from the sale of machines to customers. The machine is sold with a manufacturer's warranty valid for a fixed period not exceeding one year. The Company estimates, based on past experience with similar sales, the warranty costs will not exceed 1% of revenues. The Company therefore recognizes a provision for warranty equal to 1% of revenue recognized.

### **3 Significant accounting policies**

The accounting policies adopted are consistent with the September 30, 2016 annual consolidated financial statements.

#### **Comparatives**

Certain prior year amounts are reclassified to conform with the presentation adopted in the current year.

#### **Accounting standards and amendments issued and not yet adopted**

##### *IFRS 15 - Revenue from Contracts with Customers*

IFRS 15 is effective for years commencing on or after January 1, 2018, and replaces IAS 11, *Construction Contracts*; IAS 18, *Revenue*; International Financial Reporting Interpretations Committee ("IFRIC") 13, *Customer Loyalty Programmes*; IFRIC 15, *Agreements for the Construction of Real Estate*; IFRIC 18, *Transfer of Assets from Customers*; and Standing Interpretations Committee ("SIC") 31, *Revenue - Barter Transactions Involving Advertising Services*. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgemental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Company is in the process of assessing the impact of the new standard.

##### *IFRS 9 - Financial Instruments*

IFRS 9 is tentatively effective for years commencing on or after January 1, 2018, and will replace IAS 39, *Financial Instruments: Recognition and Measurement*. Under IFRS 9, financial assets will be classified and measured based on the business model in which they are held and the characteristics of the associated contractual cash flows. IFRS 9 also includes a new general hedge accounting standard which will better align hedge accounting and risk management. The Company intends to adopt IFRS 9 in its consolidated financial statements for the year commencing October 1, 2018; the extent of the impact of adoption of the amendments has not yet been determined.

# EnWave Corporation

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements (Unaudited, expressed in thousands of Canadian dollars)

### IFRS 16 - Leases

On January 13, 2016, IFRS 16, *Leases*, was issued which requires, among other things, lessees to recognize leases traditionally recorded as operating leases in the same manner as financing leases. The standard is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted. The Company is in the process of assessing the impact of the new standard.

### 4 Discontinued operations

On September 29, 2015, Binder filed for preliminary insolvency proceedings under the German insolvency code. As a result of this insolvency filing, an insolvency administrator was appointed by the court to take control of Binder's operations and all power held by the Company was assigned to the administrator. Due to the insolvency, the Company no longer has the ability to control the financial or operating decisions of Binder, and does not have rights to returns from Binder. As a result, it was determined that the Company no longer controlled Binder in accordance with IFRS 10, *Consolidated Financial Statements*. Binder's operations have been classified as discontinued operations on the consolidated statements of loss, comprehensive loss, and cash flows and are presented as discontinued operations for segmented reporting.

### 5 Cash and cash equivalents and restricted cash

#### a) Cash and cash equivalents

|                                | March 31,<br>2017<br>\$ | September 30,<br>2016<br>\$ |
|--------------------------------|-------------------------|-----------------------------|
| Funds held in current accounts | 2,769                   | 4,590                       |
|                                | <u>2,769</u>            | <u>4,590</u>                |

#### b) Restricted cash

As at March 31, 2017, the Company had a \$250 (September 30, 2016 - \$250) restricted cash deposit held as collateral for the Company's foreign exchange contracts and company credit card.

### 6 Trade receivables

The following amounts are receivables from customers in the normal course of business:

|                                       | March 31,<br>2017<br>\$ | September 30,<br>2016<br>\$ |
|---------------------------------------|-------------------------|-----------------------------|
| Trade receivables                     | 954                     | 770                         |
| Less: Allowance for doubtful accounts | -                       | -                           |
|                                       | <u>954</u>              | <u>770</u>                  |

# EnWave Corporation

Notes to the Unaudited Condensed Consolidated Interim Financial Statements  
(Unaudited, expressed in thousands of Canadian dollars)

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## 7 Prepaids and other receivables

|                          | March 31,<br>2017<br>\$ | September 30,<br>2016<br>\$ |
|--------------------------|-------------------------|-----------------------------|
| Prepaid expenses         | 153                     | 173                         |
| Indirect tax receivables | 51                      | 14                          |
| Other receivables        | -                       | 3                           |
|                          | <u>204</u>              | <u>190</u>                  |

## 8 Inventory

|                                    | March 31,<br>2017<br>\$ | September 30,<br>2016<br>\$ |
|------------------------------------|-------------------------|-----------------------------|
| Machine parts and work-in-progress | 1,898                   | 1,467                       |
| Food products                      | 364                     | 143                         |
| Packaging supplies                 | 134                     | 71                          |
|                                    | <u>2,396</u>            | <u>1,681</u>                |

## 9 Trade and other payables

|                            | March 31,<br>2017<br>\$ | September 30,<br>2016<br>\$ |
|----------------------------|-------------------------|-----------------------------|
| Trade payables             | 1,318                   | 559                         |
| Accrued liabilities        | 390                     | 279                         |
| Personnel related accruals | 87                      | 155                         |
| Provision for warranty     | 142                     | 91                          |
|                            | <u>1,937</u>            | <u>1,084</u>                |

## 10 Share capital

- a) Authorized: unlimited number of voting common shares without par value. Issued and outstanding: 90,796,092.

Authorized: unlimited number of voting preferred shares, issuable in series. Issued and outstanding: Nil.

# EnWave Corporation

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements (Unaudited, expressed in thousands of Canadian dollars)

b) Issued and fully paid:

|  | <u>Share capital</u> |                     |
|--|----------------------|---------------------|
|  | <b>Amount</b>        | <b>Value<br/>\$</b> |
| Balance – October 1, 2015              | 84,522,759           | 51,204              |
| Shares issued on private placement (i) | 6,250,000            | 4,234               |
| Share issue costs                      | -                    | (533)               |
| Balance – September 30, 2016           | 90,772,759           | 54,905              |
| Shares issued on exercise of options   | 23,333               | 24                  |
| Balance – March 31, 2017               | <u>90,796,092</u>    | <u>54,929</u>       |

- (i) On October 22, 2015, the Company completed a private placement of 6,250,000 common shares and 3,125,000 share purchase warrants for gross proceeds of \$5,000. The Company incurred share issue costs of \$629, of which \$550 was cash commission, legal fees and other transaction costs, and \$79 was agent's warrants to the underwriter.

c) Warrants

The continuity of share purchase warrants during the six months ended March 31, 2017 and 2016 is as follows:

|   | <b>Number of<br/>warrants</b> | <b>Weighted<br/>average<br/>exercise<br/>price<br/>\$</b> | <b>Fair<br/>value at<br/>grant<br/>date<br/>\$</b> |
|---|-------------------------------|---|--|
| Balance – October 1, 2015                       | 2,320,957                     | 1.72  | 0.18   |
| Issued:   |                               |   |  |
| Investor Warrants (i)                           | 3,125,000                     | 1.20  | 0.24   |
| Agent's Warrants (ii)                           | 225,000                       | 0.80  | 0.35   |
| Expired   | (2,320,957)                   | 1.72  | 0.18   |
| Balance – September 30, 2016 and March 31, 2017 | <u>3,350,000</u>              | <u>1.17</u>   | <u>0.25</u>  |

- (i) The fair value of the 3,125,000 warrants (the "Investor Warrants") issued as part of the October 2015 private placement was calculated using the Black-Scholes model to be \$767. The following assumptions were used in calculating the fair value of Investor Warrants: risk-free interest rate of 0.81%, expected life of five years, estimated volatility of 54.38%, and dividend rate of 0%. Each of the Investor Warrants entitles the warrant holder to convert the warrant into one common share at an exercise price of \$1.20, and the warrants expire on October 22, 2020.
- (ii) As part of the October 2015 private placement, the Company issued 225,000 agent's warrants (the "Agent's Warrants") to the underwriter of the private placement. The fair value of Agent's Warrants was calculated using the Black-Scholes model to be \$79, and was included in the share issue costs. The following assumptions were used in calculating the fair value of the Agent's Warrants: risk-free

# EnWave Corporation

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements (Unaudited, expressed in thousands of Canadian dollars)

interest rate of 0.52%, expected life of two years, estimated volatility of 54.11%, and dividend rate of 0%. Each of the Agent's Warrants entitles the warrant holder to convert the Agent's Warrant into one common share and one-half of an Investor Warrant at an exercise price of \$0.80. The Agent's Warrants expire on October 22, 2017.

### d) Stock options

The Company's stock option plan (the "Option Plan") is available to eligible persons, whereby up to 10% of the issued common shares of the Company may be reserved for issuance under the Option Plan. The aggregate number of common shares reserved for issuance to any person within any one year may not exceed 5% of the number of outstanding common shares, on a non-diluted basis.

The exercise price of the options will be determined by the Board of Directors at the time of grant of the options, such price not to be less than the last daily closing price of the Company's common shares prior to the date of grant, less the discount permitted by the policies of the Securities Exchange.

Options issued under the Option Plan will vest in the terms approved by the Board of Directors for each specific grant, except for options granted to individuals engaged in investor relations activities, which must vest over a 12-month period according to the Option Plan.

The changes in options for the six months ended March 31, 2017 and 2016 were as follows:

|                                       | March 31, 2017    |                                    | March 31, 2016    |                                    |
|---------------------------------------|-------------------|------------------------------------|-------------------|------------------------------------|
|                                       | Number of options | Weighted average exercise price \$ | Number of options | Weighted average exercise price \$ |
| Outstanding, beginning of the period  | 5,616,000         | 1.23                               | 4,877,500         | 1.48                               |
| Options granted                       | 1,910,000         | 1.10                               | 336,000           | 0.81                               |
| Options exercised                     | (23,333)          | 0.78                               | -                 | -                                  |
| Options expired or forfeited          | (593,333)         | 1.76                               | (660,000)         | 1.70                               |
| <b>Outstanding, end of the period</b> | <b>6,909,334</b>  | <b>1.15</b>                        | <b>4,553,500</b>  | <b>1.40</b>                        |
| <b>Exercisable, end of the period</b> | <b>3,540,680</b>  | <b>1.27</b>                        | <b>3,912,501</b>  | <b>1.45</b>                        |

The weighted average fair value of options granted during the six months ended March 31, 2017 was \$0.35 per option (2016 - \$0.26).

The following weighted average assumptions were used in calculating the fair value of the stock options granted using the Black-Scholes model for the six months ended March 31, 2017 and 2016:

|                         | Six months ended March 31, |            |
|-------------------------|----------------------------|------------|
|                         | 2017                       | 2016       |
| Risk-free interest rate | 0.99%                      | 0.68%      |
| Expected life           | 3.65 years                 | 3.65 years |
| Estimated volatility    | 41%                        | 41%        |
| Forfeiture rate         | 1.46%                      | 1.46%      |
| Dividend rate           | 0.00%                      | 0.00%      |

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## Notes to the Unaudited Condensed Consolidated Interim Financial Statements (Unaudited, expressed in thousands of Canadian dollars)

Stock options outstanding as at March 31, 2017 have the following expiry date and exercise prices:

| Year of expiry | Exercise price<br>per share<br>\$ | Number of<br>options |
|----------------|-----------------------------------|----------------------|
| 2017           | 1.34 - 1.61                       | 965,000              |
| 2018           | 1.40 - 1.80                       | 360,000              |
| 2019           | 1.10 - 1.40                       | 1,315,000            |
| 2020           | 0.80 - 1.00                       | 222,667              |
| 2021           | 0.67 - 1.28                       | 2,246,667            |
| 2022           | 1.09                              | 1,800,000            |
|                |                                   | 6,909,334            |

During the six months ended March 31, 2017, the Company recorded stock-based compensation expense of \$361 (2016 - \$87), which includes compensation expense for stock options and for RSRs. The fair value of each option and RSR is accounted for in the consolidated statement of loss over the vesting period, and the related credit is included in contributed surplus.

### e) Restricted Share Rights

On March 23, 2015, the shareholders of the Company approved the RSR Plan pursuant to which the Company reserved up to a maximum of 1,000,000 common shares for RSRs. The common shares reserved under the RSR Plan, together with stock options outstanding under the Option Plan, cannot exceed in aggregate 10% of the issued and outstanding shares of the Company.

The changes in RSRs for the six months ended March 31, 2017 and 2016 were as follows:

|                                       | March 31, 2017    |   | March 31, 2016    |   |
|---------------------------------------|-------------------|---|-------------------|---|
|                                       | Number of<br>RSRs | Weighted<br>average<br>grant date<br>fair value<br>\$ | Number of<br>RSRs | Weighted<br>average<br>grant date<br>fair value<br>\$ |
| Outstanding, beginning of the period  | 150,000           | 0.95  | 80,000            | 1.06  |
| RSRs granted                          | 230,000           | 1.06  | 70,000            | 0.83  |
| RSRs vested                           | -                 | -   | -                 | -   |
| RSRs forfeited                        | -                 | -   | -                 | -   |
| <b>Outstanding, end of the period</b> | <b>380,000</b>    | <b>1.02</b>   | <b>150,000</b>    | <b>0.95</b>   |

During the six months ended March 31, 2017, stock-based compensation expense of \$28 (2016 - \$15) was recorded for the RSRs vested during the period. RSRs vest three years from the award date, in accordance with the RSR Plan.

# EnWave Corporation

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements (Unaudited, expressed in thousands of Canadian dollars)

### 11 Contingencies and commitments

a) Commitments payable to vendors by the Company

The Company has entered into various lease agreements for the rental of office space, plant facilities, and laboratory facilities. The Company also pays additional rent to cover its share of operating costs and property taxes.

|                       | March 31,<br>2017<br>\$ | September 30,<br>2016<br>\$ |
|-----------------------|-------------------------|-----------------------------|
| Less than 1 year      | 346                     | 276                         |
| Between 1 and 5 years | 377                     | 127                         |
| More than 5 years     | -                       | -                           |
| Total                 | <u>723</u>              | <u>403</u>                  |

b) Other liability

On December 6, 2010, the Company entered into an Asset Purchase Agreement (the "INAP APA") to acquire the patents and know-how for the MIVAP® vacuum microwave dehydration technology. The license covered the US and North American rights. Pursuant to the INAP APA, and for amounts in excess of the minimum royalty amounts, a portion of the license or royalty fees collected from the Company's customers who purchase MIVAP® technology is remitted to INAP; in the case of North American food applications the percentage is 25%, and for non-food applications in North American markets is 12.5%. For non-North American usage, the Company remits to INAP 50% of license or royalty fees collected from food applications, and 25% from non-food.

The acquired intangible asset was recorded at the fair value of the estimated minimum royalty amounts and subsequently at each reporting date at amortized cost. At March 31, 2017, the remaining discounted balance of the liability is \$323 (September 30, 2016 - \$623) and is payable on an undiscounted basis as follows:

|       | Undiscounted<br>royalties<br>payable<br>EUR € | Undiscounted<br>royalties<br>payable<br>CAD \$ |
|-------|---|--|
| 2017  | 214   | 304  |
| 2018  | 29  | 41   |
| Total | <u>243</u>                                    | <u>345</u>                                     |

### 12 Related party transactions

a) Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company and/or its subsidiaries, including any external director of the Company and/or its subsidiaries.



# EnWave Corporation

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements (Unaudited, expressed in thousands of Canadian dollars)

Remuneration of key management personnel of the Company during the three and six months ended March 31, 2017 and 2016 comprises the following expenses:

|   | Three months ended<br>March 31, |            | Six months ended<br>March 31, |            |
|---|---------------------------------|------------|-------------------------------|------------|
|   | 2017<br>\$                      | 2016<br>\$ | 2017<br>\$                    | 2016<br>\$ |
| Salaries, bonuses, short-term and long-term employee benefits | 139                             | 135        | 433                           | 386        |
| Stock-based compensation                                      | 93                              | 23         | 154                           | 39         |
|   | <u>232</u>                      | <u>158</u> | <u>587</u>                    | <u>425</u> |

b) Sale of goods

The Company, through its subsidiary NutraDried, recorded sales of \$1,392 (2016 - \$2,747) to Spire Brands, LLC ("Spire"). Spire is related to NutraDried by way of Creations' equity ownership interest in Spire; Creations is the non-controlling partner of NutraDried. The sales terms with Spire were governed by the Master Distribution Agreement ("MDA") between the Company and Spire and are on terms equivalent to those that prevail in arm's length transactions. The Company terminated its MDA with Spire effective on January 15, 2017.

c) Purchases from related parties

The Company had purchases from related parties for the three and six months ended March 31, 2017 and 2016 in the normal course of business as shown in the table below:

|  | Three months ended<br>March 31, |            | Six months ended<br>March 31, |            |
|--|---------------------------------|------------|-------------------------------|------------|
|  | 2017<br>\$                      | 2016<br>\$ | 2017<br>\$                    | 2016<br>\$ |
| Consulting, management and directors' fees | 56                              | 188        | 255                           | 349        |
| Stock-based compensation                   | 29                              | 8          | 58                            | 16         |
| Facilities rent and other                  | 6                               | 30         | 32                            | 59         |
|  | <u>91</u>                       | <u>226</u> | <u>345</u>                    | <u>424</u> |

d) Balances payable to related parties

The following amounts are due to related parties:

|  | March 31,<br>2017<br>\$ | September 30,<br>2016<br>\$ |
|--|-------------------------|-----------------------------|
| Equipment loans to BW Leasing (i)      | 196                     | 222                         |
| Other payables to related parties (ii) | 18                      | 124                         |
|  | <u>214</u>              | <u>346</u>                  |

# EnWave Corporation

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements (Unaudited, expressed in thousands of Canadian dollars)

|                   | March 31,<br>2017<br>\$ | September 30,<br>2016<br>\$ |
|-------------------|-------------------------|-----------------------------|
| Current portion   | 83                      | 182                         |
| Long-term portion | 131                     | 164                         |
|                   | <u>214</u>              | <u>346</u>                  |

- (i) BW Leasing is an entity under common control of Creations, the non-controlling interest partner in NutraDried.
- (ii) Other payables to related parties includes amounts due for rent, expense reimbursements, and other accruals.
- e) Balances receivable from related parties:

The following amounts are due from related parties:

|       | March 31,<br>2017<br>\$ | September 30,<br>2016<br>\$ |
|-------|-------------------------|-----------------------------|
| Spire | 271                     | 426                         |
|       | <u>271</u>              | <u>426</u>                  |

### 13 Financial instruments and risk management

The Company's cash and cash equivalents, restricted cash, trade receivables, receivable from related parties, trade and other payables, and amounts due to related parties are measured at amortized cost subsequent to initial measurement. Fair value measurement requires classification of financial instruments within a hierarchy that prioritizes the inputs to fair value measurement. When measuring the fair value of an asset or liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy, based on the inputs used in the valuation techniques, as follows:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly;

Level 3 - Inputs that are not based on observable market data.

#### Fair values

The Company's financial assets and liabilities are classified into the following categories:

|  |                             |
|--|-----------------------------|
| Cash and cash equivalents              | Loans and receivables       |
| Restricted cash                        | Loans and receivables       |
| Trade receivables                      | Loans and receivables       |
| Receivable from related parties        | Loans and receivables       |
| Due from customers on contract         | Loans and receivables       |
| Trade and other payables               | Other financial liabilities |
| Amounts due to related parties         | Other financial liabilities |
| Customer deposits and deferred revenue | Other financial liabilities |
| Other liability                        | Other financial liabilities |

# EnWave Corporation

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Unaudited, expressed in thousands of Canadian dollars)

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The fair value of financial assets and liabilities classified as loans and receivables and other financial liabilities (excluding other liability) approximate their carrying value due to their short-term nature.

The Company uses derivative financial instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates. The fair value measurement of the foreign exchange derivatives is classified within Level 2 of the fair value hierarchy.

The carrying value of other liability as at March 31, 2017 was \$323 (September 30, 2016 - \$623) which approximates its fair value and is recorded at amortized cost. The carrying value of the other liability was determined based on the discounted future cash flows using rates for similar financial instruments subject to similar risks and maturities.

The Company did not hold any held-to-maturity or available-for-sale financial instruments during the six months ended March 31, 2017 and March 31, 2016.

### **Financial risk factors**

The use of financial instruments exposes the Company to a number of risks. These risks include credit risk, liquidity risk, and market risk. The Company has established policies and procedures to manage these risks, with the objective of minimizing the adverse effects that changes in the variable factors underlying these risks could have on the Company's consolidated financial statements.

### **Credit risk**

Credit risk is the risk that a counterparty will not meet its obligation under a financial instrument or customer contract, leading to a financial loss being incurred by the Company. Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents, restricted cash, trade receivables, and due from customers on contract. The Company mitigates its exposure to credit loss by maintaining cash balances with major Canadian financial institutions.

The Company provides credit to its customers in the normal course of business and, as such, has exposure to credit risk in relation to the collection of trade receivables. Prior to issuing credit, management reviews the customer, taking into account its financial position, historical experience, and other factors. The Company minimizes its credit risk associated with trade receivables by maintaining ongoing close contact with customers, by requiring commercial letters of credit, and by reviewing individual account balances, and proactively following up on overdue amounts. The Company maintains an allowance for doubtful accounts relating to specific losses estimated on individual exposures. As at March 31, 2017, and September 30, 2016 the Company has recorded \$nil allowance for doubtful accounts.

The Company is exposed to credit risk in trade receivables by way of concentration of credit with a small number of customers. The Company determines its concentration of credit risk if the balance is more than 10% of total revenue or trade receivables. The Company expects these customers to remain as large customers in the future. Significant change in these customer relationships could materially impact the Company's future financial results. The Company seeks and ordinarily obtains progress advances in respect of its construction contracts. The maximum exposure to loss arising from trade receivables is equal to their total carrying amounts.

# EnWave Corporation

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Unaudited, expressed in thousands of Canadian dollars)

The Company transacts with a number of Canadian chartered banks and other brokerages. Due to the creditworthiness of its counterparties, the Company regards all changes in fair value of foreign exchange derivatives as arising only from changes in market factors, including foreign exchange rates. The Company monitors the exposure to any single counterparty along with its financial position. If it is determined that a counterparty has become materially weaker, the Company will work to reduce its credit exposure to that counterparty.

The following table provides information regarding the aging of receivables as at March 31, 2017:

|   | Neither<br>past due<br>nor<br>impaired | Past due but not impaired |          |          |
|---|--|---------------------------|----------|----------|
|   | 0 - 30                                 | 31 - 90                   | 91 - 365 | Over 365 |
| Trade receivables                           | 827                                    | 127                       | -        | -        |
| Due from customers on contract              | 2,988                                  | -                         | -        | -        |
| Other receivables including related parties | 51                                     | 271                       | -        | -        |
|   | <u>3,866</u>                           | <u>398</u>                | <u>-</u> | <u>-</u> |

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due.

The Company manages liquidity risk through ongoing management and forecasting of cash flows, budgeting, and equity financings. Cash flow forecasting is performed to monitor cash requirements and to manage capital management decisions. Such forecasting takes into account current and potential customers, contractual obligations and the Company's technology development and commercialization expectations.

The Company's investment policy is to invest its cash in highly liquid short-term interest bearing investments with varying maturities selected with regards to the expected timing of expenditures from continuing operations. All of the Company's foreign exchange derivatives outstanding at March 31, 2017 were due to be settled within 6 months.

The Company ensures that sufficient funds are raised from private placements to meet its operating requirements, after taking into account existing cash. The Company manages liquidity risk through the management of its capital structure and financial leverage. At March 31, 2017, the Company had cash and cash equivalents of \$2,769 to settle current liabilities of \$3,073.

a) Financial assets maturity table:

|   | 0 - 30       | 31 - 90    | 91 - 365     | Over 365 |
|---|--------------|------------|--------------|----------|
| Cash and cash equivalents and restricted cash | 2,769        | -          | 250          | -        |
| Trade receivables                             | 954          | -          | -            | -        |
| Due from customers on contract                | 1,232        | 521        | 1,235        | -        |
| Other receivables including related parties   | 51           | -          | 271          | -        |
|   | <u>5,006</u> | <u>521</u> | <u>1,756</u> | <u>-</u> |

# EnWave Corporation

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements (Unaudited, expressed in thousands of Canadian dollars)

b) Financial liabilities, excluding other liability, maturity table:

|                                | 0 - 30       | 31 - 90   | 91 - 365  | Over 365   |
|--------------------------------|--------------|-----------|-----------|------------|
| Trade and other payables       | 1,937        | -         | -         | -          |
| Amounts due to related parties | 20           | 15        | 48        | 131        |
|                                | <u>1,957</u> | <u>15</u> | <u>48</u> | <u>131</u> |

c) The undiscounted minimum royalties in other liability mature as follows:

| Year  | Royalties payable<br>EUR € | Royalties payable<br>CAD \$ |
|-------|----------------------------|-----------------------------|
| 2017  | 214                        | 304                         |
| 2018  | 29                         | 41                          |
| Total | <u>243</u>                 | <u>345</u>                  |

### Market risk

Market risk is the risk that the fair value of future cash flows of the Company will fluctuate due to changes in interest rates and foreign currency exchange rates.

#### *Interest rate risk*

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest risk from the interest rate impact on cash and cash equivalents and restricted cash. The Company earns interest on deposits based on current market interest rates, which during the six months ended March 31, 2017 ranged from 0.60% to 1.40% (2016 – 0.65% to 1.35%). A 1% change in interest rates would affect the results of operations by approximately \$29 (2016 - \$30).

The Company pays interest on certain amounts payable to related parties. The interest rates are fixed and the Company considers the interest rate risk to be low.

#### *Foreign exchange risk*

The Company is exposed to the following foreign exchange risks related to the fluctuation of foreign exchange rates:

- (i) The Company operates in the United States and a portion of its expenses are incurred in US dollars and Euros;
- (ii) The Company is exposed to currency risk through its other liability comprising minimum royalties denominated in Euros;
- (iii) The Company is exposed to currency risk through an increasing number of customers with contracts denominated in US dollars;

# EnWave Corporation

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements (Unaudited, expressed in thousands of Canadian dollars)

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- (iv) The Company purchases machine parts from European suppliers and is exposed to currency risk as a portion of its expenses are incurred in Euros.

A significant change in the currency exchange rate of the Canadian dollar relative to the US dollar and Euro currencies could have an effect on the Company's results of operations. As at March 31, 2017, all of the Company's liquid assets and liabilities were held in Canadian dollars and US dollars.

The Company enters into foreign exchange derivative contracts to minimize exposure to foreign currencies. During the six months ended March 31, 2017, the Company incurred an unrealized loss on foreign exchange derivatives, included within foreign exchange loss, of \$5 (2016 - \$nil). At March 31, 2017, the fair value of the foreign exchange contracts was a net liability of \$2 (September 30, 2016 – net asset of \$3). The fair values of the foreign exchange derivatives are recurring measurements and are determined whenever possible based on observable market data. If observable market data on the financial derivatives is not available, the Company uses observable spot and forward foreign exchange rates to estimate their fair values.

A change in the value of the Canadian dollar by 10% relative to foreign currencies the Company is exposed to would have affected the Company's loss for the six months ended March 31, 2017 and 2016 as follows:

| <b>Currency</b> | <b>2017</b> | <b>2016</b> |
|-----------------|-------------|-------------|
|                 | <b>\$</b>   | <b>\$</b>   |
| US dollar       | 412         | 125         |
| Euro            | 36          | 97          |

### Capital management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern and to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk.

In the management of capital, the Company includes the components of equity attributable to common shareholders. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue new shares, issue debt and acquire or dispose of assets. In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

There were no changes in the Company's approach to capital management in the period. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

# EnWave Corporation

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements (Unaudited, expressed in thousands of Canadian dollars)

### 14 Revenues

- a) Revenue breakdown for the three and six months ended March 31, 2017 and 2016 is as follows:

|   | Three months ended<br>March 31, |              | Six months ended<br>March 31, |              |
|---|---------------------------------|--------------|-------------------------------|--------------|
|   | 2017<br>\$                      | 2016<br>\$   | 2017<br>\$                    | 2016<br>\$   |
| Equipment sales and construction contracts    | 2,399                           | 2,500        | 4,125                         | 3,454        |
| Product sales                                 | 1,339                           | 1,842        | 2,661                         | 3,120        |
| Equipment rental fees, testing fees and other | 368                             | 181          | 665                           | 505          |
| Royalties and licensing fees                  | 77                              | 63           | 199                           | 111          |
|   | <u>4,183</u>                    | <u>4,586</u> | <u>7,650</u>                  | <u>7,190</u> |

Included in due from customers on contract on the consolidated statement of financial position is \$2,988 (September 30, 2016 - \$1,542) related to work performed on equipment construction contracts where revenue has been recognized; however, the amounts are still to be invoiced to the customer based on the contract terms.

Customer deposits and deferred revenue of \$730 (September 30, 2016 - \$700) relate to deposits received from customers on equipment orders, but which are not yet recognizable as revenue.

Individual customers representing over 10% of the total revenue during the six months ended March 31, 2017 and 2016 were as follows:

| Customer | March 31, 2017 |            | March 31, 2016 |            |
|----------|----------------|------------|----------------|------------|
|          | \$             | %          | \$             | %          |
| A        | 1,392          | 18         | 2,747          | 38         |
| B        | 1,258          | 16         | 1,144          | 16         |
| C        | 1,233          | 16         | 957            | 13         |
| Others   | 3,767          | 50         | 2,342          | 33         |
|          | <u>7,650</u>   | <u>100</u> | <u>7,190</u>   | <u>100</u> |

- b) Trade receivables from customers representing more than 10% of the total amount were as follows:

| Customer | March 31, 2017 |            | September 30, 2016 |            |
|----------|----------------|------------|--------------------|------------|
|          | \$             | %          | \$                 | %          |
| X        | 308            | 32         | 193                | 25         |
| Y        | 103            | 11         | 147                | 19         |
| Others   | 543            | 57         | 430                | 56         |
|          | <u>954</u>     | <u>100</u> | <u>770</u>         | <u>100</u> |

# EnWave Corporation

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements (Unaudited, expressed in thousands of Canadian dollars)

### 15 Expenses by nature

Details of consolidated expenses by nature for direct costs, general and administration, sales and marketing, and research and development expenses for the three and six months ended March 31, 2017 and 2016 are shown below.

| Details of expenses by nature         | Three months ended<br>March 31, |              | Six months ended<br>March 31, |              |
|---------------------------------------|---------------------------------|--------------|-------------------------------|--------------|
|                                       | 2017<br>\$                      | 2016<br>\$   | 2017<br>\$                    | 2016<br>\$   |
| Cost of materials                     | 2,247                           | 1,971        | 4,012                         | 2,858        |
| Salaries, wages and employee expenses | 1,155                           | 1,125        | 2,409                         | 2,162        |
| Professional services                 | 299                             | 219          | 493                           | 465          |
| Travel and promotional costs          | 198                             | 121          | 328                           | 197          |
| Rent                                  | 100                             | 114          | 213                           | 234          |
| Depreciation of plant and equipment   | 231                             | 243          | 466                           | 481          |
| Other expenses                        | 86                              | 158          | 155                           | 212          |
| Office and courier                    | 58                              | 74           | 112                           | 171          |
| <b>Total expenses</b>                 | <b>4,374</b>                    | <b>4,025</b> | <b>8,188</b>                  | <b>6,780</b> |

### 16 Segmented information

The Company has assessed its operating segments to be EnWave USA and EnWave Canada according to the manner in which information is used by the Chief Operating Decision Maker. NutraDried LLP comprises the EnWave USA operating segment. The results of operations and the assets for each segment are shown below.

| As at                                  | March 31, 2017         |                     |              | September 30, 2016     |                     |              |
|--|------------------------|---------------------|--------------|------------------------|---------------------|--------------|
|  | EnWave<br>Canada<br>\$ | EnWave<br>USA<br>\$ | Total<br>\$  | EnWave<br>Canada<br>\$ | EnWave<br>USA<br>\$ | Total<br>\$  |
| <b>Assets</b>                          |                        |                     |              |                        |                     |              |
| Trade receivables                      | 392                    | 562                 | 954          | 725                    | 45                  | 770          |
| Receivable from related parties        | -                      | 271                 | 271          | -                      | 426                 | 426          |
| Inventory                              | 1,898                  | 498                 | 2,396        | 1,467                  | 214                 | 1,681        |
| Plant and equipment                    | 1,402                  | 1,837               | 3,239        | 1,551                  | 2,128               | 3,679        |
| Intangible assets                      | 1,341                  | 18                  | 1,359        | 1,816                  | 18                  | 1,834        |
|  | <b>5,033</b>           | <b>3,186</b>        | <b>8,219</b> | <b>5,559</b>           | <b>2,831</b>        | <b>8,390</b> |
| <b>Liabilities</b>                     |                        |                     |              |                        |                     |              |
| Trade and other payables               | 1,643                  | 294                 | 1,937        | 932                    | 152                 | 1,084        |
| Amounts due to related parties         | -                      | 214                 | 214          | 103                    | 243                 | 346          |
| Customer deposits and deferred revenue | 730                    | -                   | 730          | 700                    | -                   | 700          |
| Other financial liability              | 323                    | -                   | 323          | 623                    | -                   | 623          |
|  | <b>2,696</b>           | <b>508</b>          | <b>3,204</b> | <b>2,358</b>           | <b>395</b>          | <b>2,753</b> |



# EnWave Corporation

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Unaudited, expressed in thousands of Canadian dollars)

| Six months ended                                    | March 31, 2017         |                     |             | March 31, 2016                        |                     |             |
|---|------------------------|---------------------|-------------|---------------------------------------|---------------------|-------------|
|   | EnWave<br>Canada<br>\$ | EnWave<br>USA<br>\$ | Total<br>\$ | EnWave<br>Canada <sup>(1)</sup><br>\$ | EnWave<br>USA<br>\$ | Total<br>\$ |
| Revenues  | 4,986                  | 2,664               | 7,650       | 4,063                                 | 3,127               | 7,190       |
| Expenses  | (6,601)                | (2,446)             | (9,047)     | (4,556)                               | (3,022)             | (7,578)     |
| <b>Net (loss) income from continuing operations</b> | (1,615)                | 218                 | (1,397)     | (493)                                 | 105                 | (388)       |
| Net loss from discontinued operations               | -                      | -                   | -           | (86)                                  | -                   | (86)        |
| <b>Net (loss) income</b>                            | (1,615)                | 218                 | (1,397)     | (579)                                 | 105                 | (474)       |

(1) The results of Binder are included as discontinued operations of EnWave Canada's net loss for the six months ended March 31, 2016 (note 4).

Revenues for EnWave Canada comprise all equipment sales and construction contracts, royalties and licensing fees, and equipment rental fees, testing fees and other referred to in note 14(a) and accounts for approximately 65% of the consolidated revenues. Revenues for EnWave USA relate to product sales referred to in note 14(a) and account for approximately 35% of the consolidated revenues.