Condensed Consolidated Interim Financial Statements

Three and six months ended March 31, 2018 and 2017

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

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.

EnWave Corporation
Condensed Consolidated Interim Statements of Financial Position
As at March 31, 2018 and September 30, 2017

(Unaudited, expressed in thousands of Canadian dollars)

	Note	March 31, 2018	September 30, 2017
		$	$
Assets			
Current assets			
Cash and cash equivalents	4(a)	**7,480**	1,319
Restricted cash	4(b)	**250**	250
Trade receivables	5	**2,439**	2,617
Due from customers on contract	14(a)	**2,118**	2,378
Prepaids and other receivables	6	**207**	186
Receivables from related parties	12(e)	**25**	-
Inventory	7	**3,997**	2,973
		16,516	9,723
Non-current assets			
Plant and equipment		**2,380**	2,675
Intangible assets	8	**1,212**	946
		3,592	3,621
Total assets		**20,108**	13,344
Liabilities			
Current liabilities			
Trade and other payables	9	**2,859**	2,181
Amounts due to related parties	12(d)	**12**	74
Customer deposits and deferred revenue	14(a)	**331**	926
Current portion of other liability	11(b)	**94**	41
		3,296	3,222
Non-current liabilities			
Amounts due to related parties	12(d)	**-**	90
Long-term portion of other liability	11(b)	**396**	-
		396	90
Total liabilities		**3,692**	3,312
Equity			
Attributable to shareholders of the parent			
Share capital	10(b)	**63,083**	54,967
Warrants	10(c)	**1,898**	749
Contributed surplus		**7,397**	7,322
Foreign currency translation reserve		**503**	430
Deficit		**(56,465)**	(55,199)
		16,416	8,269
Non-controlling interest	1	**-**	1,763
Total equity		**16,416**	10,032
Total liabilities and equity		**20,108**	13,344
Contingencies and commitments	11		

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

EnWave Corporation

Condensed Consolidated Interim Statements of Net Loss

For the three and six months ended March 31, 2018 and 2017

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

		Three months ended		Six months ended	
		March 31, 2018 $	**March 31, 2017 $**	**March 31, 2018 $**	**March 31, 2017 $**
Revenues	14	**4,172**	4,183	**8,691**	7,650
Direct costs		**(2,877)**	(3,155)	**(5,970)**	(5,838)
		1,295	1,028	**2,721**	1,812
Expenses					
General and administration		**606**	523	**1,199**	1,058
Sales and marketing		**683**	396	**1,273**	701
Research and development		**297**	300	**569**	591
Amortization of intangible assets		**141**	220	**280**	474
Stock-based compensation	10(d)	**129**	339	**276**	361
Foreign exchange loss (gain)		**(54)**	18	**40**	9
Finance expense, net		**12**	11	**-**	15
		1,814	1,807	**3,637**	3,209
Net loss for the period		**(519)**	(779)	**(916)**	(1,397)
Net (loss) income attributed to:					
Shareholders of the parent company		**(650)**	(835)	**(1,266)**	(1,525)
Non-controlling interest	1	**131**	56	**350**	128
		(519)	(779)	**(916)**	(1,397)
Basic and diluted loss per share		**(0.01)**	(0.01)	**(0.01)**	(0.02)
Weighted average number of shares outstanding – basic and diluted		**100,597,211**	90,790,980	**98,162,736**	90,783,179

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, 2018 and 2017

(Unaudited, expressed in thousands of Canadian dollars)

	Three months ended		Six months ended	
	March 31, 2018 $	**March 31, 2017 $**	**March 31, 2018 $**	**March 31, 2017 $**
Net loss for the period	**(519)**	(779)	**(916)**	(1,397)
Other comprehensive loss				
Items that may be subsequently reclassified to profit or loss				
Foreign exchange translation	**138**	(25)	**154**	35
Total comprehensive loss for the period	**(381)**	(804)	**(762)**	(1,362)
(Loss) income attributed to:				
Shareholders of the parent company	**(585)**	(848)	**(1,193)**	(1,507)
Non-controlling interest	**204**	44	**431**	145
Total comprehensive loss for the period	**(381)**	(804)	**(762)**	(1,362)

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

EnWave Corporation

Condensed Consolidated Interim Statements of Changes in Equity

For the six months ended March 31, 2018 and 2017

(Unaudited, expressed in thousands of Canadian dollars)

	Attributable to shareholders of the parent								
	Share capital								
	Number	**Value $**	**Warrants $**	**Contributed surplus $**	**Foreign currency translation reserve $**	**Deficit $**	**Total $**	**Non-controlling interest $**	**Total equity $**
Balance – September 30, 2016	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
Balance – March 31, 2017	90,796,092	54,929	749	6,801	513	(53,333)	9,659	1,567	11,226
Net (loss) income for the period	-	-	-	-	-	(1,866)	(1,866)	277	(1,589)
Effects of foreign currency translation	-	-	-	-	(83)	-	(83)	(81)	(164)
Shares issued on exercise of options	36,667	38	-	(9)	-	-	29	-	29
Restricted share rights	-	-	-	65	-	-	65	-	65
Stock-based compensation	-	-	-	465	-	-	465	-	465
Balance – September 30, 2017	90,832,759	54,967	749	7,322	430	(55,199)	8,269	1,763	10,032
Net (loss) income for the period	-	-	-	-	-	(1,266)	(1,266)	350	(916)
Effects of foreign currency translation	-	-	-	-	73	-	73	81	154
Shares issued for prospectus and private placement	9,530,000	8,884	1,310	-	-	-	10,194	-	10,194
Share issue costs	-	(1,067)	(134)	-	-	-	(1,201)	-	(1,201)
Shares issued on exercise of agent's warrants	225,150	207	(27)	-	-	-	180	-	180
Shares issued on exercise of stock options	20,000	22		(5)	-	-	17	-	17
Shares issued on vesting of RSRs	65,000	70		(70)	-	-	-	-	-
Restricted share rights	-	-	-	64	-	-	64	-	64
Stock-based compensation	-	-	-	212	-	-	212	-	212
Acquisition of non-controlling interest	-	-	-	(126)	-	-	(126)	(2,194)	(2,320)
Balance – March 31, 2018	100,672,909	63,083	1,898	7,397	503	(56,465)	16,416	-	16,416

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, 2018 and 2017

(Unaudited, expressed in thousands of Canadian dollars)

	Note	Six months ended March 31, 2018 $	2017 $
Cash flows from operating activities			
Net loss for the period		**(916)**	(1,397)
Items not affecting cash			
Depreciation and amortization		**919**	966
Stock-based compensation	10(d)	**276**	361
Finance expense, net		**-**	15
Foreign exchange loss		**40**	9
		319	(46)
Changes in non-cash working capital			
Trade receivables		**235**	(206)
Prepaids and other receivables		**(23)**	(13)
Inventory		**(696)**	(776)
Trade and other payables		**657**	961
Due to/from related parties		**(186)**	(15)
Due from customers on contract and deferred revenue		**(383)**	(1,416)
Net cash generated used in operating activities		**(77)**	(1,511)
Cash flows from investing activities			
Acquisition of plant and equipment		**(313)**	(109)
Acquisition of intangible assets		**(36)**	-
Acquisition of non-controlling interest in NutraDried	1	**(2,282)**	-
Finance income received		**17**	15
Net cash used in investing activities		**(2,614)**	(94)
Cash flows from financing activities			
Proceeds from prospectus offering and private placement	10(b)	**10,006**	-
Share issue costs	10(b)	**(1,014)**	-
Proceeds from exercise of agent's warrants	10(c)	**180**	-
Proceeds from exercise of stock options	10(d)	**16**	18
Payment of other liability	11(b)	**(365)**	(264)
Net cash generated from (used in) financing activities		**8,823**	(246)
Effect of foreign exchange translation on cash		**29**	30
Increase (decrease) in cash and cash equivalents		**6,161**	(1,821)
Cash and cash equivalents - Beginning of the period		**1,319**	4,590
Cash and cash equivalents - End of the period		**7,480**	2,769
Non-cash transactions			
Acquisition of plant and equipment through accounts payable		**(3)**	(16)
Warrants issued for share issue costs		**187**	-
Acquisition of intangible assets through other liability		**511**	-

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

1 Nature of operations

EnWave Corporation ("EnWave" or "the Company") 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's wholly owned subsidiary, NutraDried Food Company, LLC ("NutraDried"), is a Limited Liability Corporation registered in Washington State. NutraDried manufactures, markets and sells certain dehydrated food products under the Company's nutraDRIED™ and Moon Cheese® trademarks throughout North America. On February 21, 2018, the Company acquired the 49% non-controlling interest in NutraDried, LLP from NutraDried Creations, LLP ("Creations"), the former non-controlling interest partner in NutraDried for cash consideration of US $1,800 (CAD $2,282). The acquisition of the 49% non-controlling interest in NutraDried made NutraDried a wholly owned subsidiary of the Corporation effective February 21, 2018. Concurrent with the acquisition of the non-controlling interest and pursuant to the laws of Washington State, the Company completed a conversion of NutraDried from a Limited Liability Partnership to a Limited Liability Corporation and changed the entity name to NutraDried Food Company, LLC.

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, 2017. 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, 2017.

These interim financial statements were approved for issuance by the Board of Directors for issue on May 23, 2018.

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 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 $239 (2017 - $536).

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 the greater of its value in use and its fair value less costs of disposal. Value in use is calculated as the present value of the estimated future cash flows discounted at appropriate discount rates. 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 the agreement. The liability is measured at the end of each reporting period, and changes are recorded in the consolidated statement of net 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 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 net loss on a straight-line basis over the period of the lease. 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. Machines are 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, that 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, 2017 annual consolidated financial statements.

Accounting standards and amendments issued and not yet adopted

The standards, amendments, and interpretations issued but not yet adopted by the Company have been disclosed in note 3 of the Company's September 30, 2017, annual consolidated financial statements. No additional standards, amendments, and interpretations were issued in the six months ended March 31, 2018. The Company is currently considering the impact of adopting these standards, amendments, and interpretations on its consolidated financial statements and cannot reasonably estimate the effect at this time, except as specifically mentioned below:

IFRS 15 - Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"). In April 2016, the IASB issued amendments to clarify the standard and provide additional transition relief for modified contracts and completed contracts. IFRS 15 applies to all revenue contracts with customers and provides a model for the recognition and measurement of the sale of some non-financial assets such as property, plant, and equipment, and intangible assets. It sets out a five-step model for revenue recognition and applies to all industries. The core principle is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration that the entity expects to be entitled to in exchange for those goods or services. IFRS 15 requires numerous disclosures, such as the disaggregation of total revenue, disclosures about performance obligations, changes in contract asset and liability account balances, and key judgements and estimates. In addition, the accounting for loss-making contracts will fall under the onerous contracts guidance in IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The Company has started reviewing the implementation of IFRS 15 and provides regular updates to the Audit Committee, including a work plan. Major provisions of IFRS 15 include determining which goods and services are distinct and require separate accounting (performance obligations), determining the total transaction price, estimating and recognizing variable consideration, identifying and accounting for contract modifications, and determining whether revenue should be recognized at a point in time or over time (including guidance on measuring the stage of completion). IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the potential effect of these requirements on its consolidated financial statements, including the timing of revenue recognition. The impact of the transition to IFRS 15 on the consolidated financial statements is not yet known, and the Company expects to report more detailed information, including estimated quantitative financial impacts, if material, prior to October 1, 2018.

The mandatory effective date of IFRS 15 is for years starting on or after January 1, 2018, with earlier application permitted. This standard may be adopted using a full retrospective or modified retrospective approach. The Company has not yet selected the transition method it will apply or quantified the financial reporting impact of adopting this standard. The Company intends to adopt IFRS 15 in its consolidated financial statements for the year commencing October 1, 2018.

(Unaudited, expressed in thousands of Canadian dollars)

IFRS 9 - Financial Instruments

In July 2014, the IASB issued IFRS 9, *Financial Instruments* ("IFRS 9") to introduce new requirements for the classification and measurement of financial assets and financial liabilities, including derecognition. IFRS 9 requires that all financial assets be subsequently measured at amortized cost or fair value. The new standard also requires that changes in fair value attributable to a financial liability's credit risk be presented in other comprehensive income, not in profit or loss. In addition, it includes a single expected-loss impairment model and a reformed approach to hedge accounting. This standard is effective on or after January 1, 2018, on a retrospective basis subject to certain exceptions. The impact of the transition to IFRS 9 on the consolidated financial statements is not yet known, and the Company expects to report more detailed information, including estimated quantitative financial impacts, if material, prior to its adoption on October 1, 2018.

IFRS 16 - Leases

In January 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 replaces IAS 17, *Leases,* and 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 Cash and cash equivalents and restricted cash

a) Cash and cash equivalents

	March 31, 2018 $	**September 30, 2017 $**
Funds held in current accounts	7,480	1,319

b) Restricted cash

As at March 31, 2018, the Company had a $250 (September 30, 2017 - $250) restricted cash deposit held as collateral for the Company's foreign exchange contracts and Company credit card.

5 Trade receivables

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

	March 31, 2018 $	**September 30, 2017 $**
Trade receivables	2,439	2,617
Less: Allowance for doubtful accounts	-	-
	2,439	2,617

(Unaudited, expressed in thousands of Canadian dollars)

6 Prepaids and other receivables

	March 31, 2018 $	September 30, 2017 $
Prepaid expenses	207	172
Indirect tax receivables	-	14
	207	186

7 Inventory

	March 31, 2018 $	September 30, 2017 $
Machine parts and work-in-progress	3,191	2,433
Food products	646	448
Packaging supplies	160	92
	3,997	2,973

8 Intangible assets

	Acquired patents and technology licenses $	Computer software $	Total $
Year ended September 30, 2017			
Opening net book value	1,834	-	1,834
Additions	-	-	-
Amortization	(888)	-	(888)
Closing net book value	946	-	946
At September 30, 2017			
Cost	9,073	-	9,073
Accumulated amortization	(8,127)	-	(8,127)
Net book value	946	-	946
Six months ended March 31, 2018			
Opening net book value	946	-	946
Additions	511	35	546
Amortization	(277)	(3)	(280)
Closing net book value	1,180	32	1,212
At March 31, 2018			
Cost	9,584	35	9,619
Accumulated amortization	(8,404)	(3)	(8,407)
Net book value	1,180	32	1,212

(Unaudited, expressed in thousands of Canadian dollars)

As at March 31, 2018, the remaining amortization period for intangible assets ranges from 2.5 months to 4.5 years (2017 - 8 months to 4 years).

On March 28, 2018, the Company renewed its Patent and Know-How Licensing agreement (the "INAP License") with INAP GmbH ("INAP") for an additional five years ending October 15, 2022. The INAP License grants the Company exclusive worldwide rights to INAP's MIVAP technology, a microwave vacuum dehydration technology. Pursuant to the INAP License, the Company will pay INAP a 25% share of the royalties received from the Company's customers making use of the MIVAP technology for food applications outside of North America, and 12.5% of the royalties generated from non-food applications outside of North America. The Company has committed to pay undiscounted minimum annual royalties to INAP during the term of the agreement totalling $617 (US $479). The present value of the expected royalty amounts equal to $511 was recognized as an intangible asset and a corresponding other liability in the consolidated financial statements. The intangible asset is being amortized over the useful life of the INAP License.

9 Trade and other payables

	March 31, 2018 $	September 30, 2017 $
Trade payables	1,242	1,194
Accrued liabilities	1,293	278
Provision for warranty	193	166
Personnel related accruals	131	543
	2,859	2,181

10 Share capital

a) Authorized: unlimited number of voting common shares without par value. Issued and outstanding: 100,672,909.

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

b) Issued and fully paid:

	Share capital	
	Number	Value $
Balance – October 1, 2016	90,772,759	54,905
Shares issued on exercise of stock options	60,000	62
Balance – September 30, 2017	90,832,759	54,967
Shares issued on exercise of Agent's Warrants (i)	225,000	207
Shares issued with the Offering (ii)	9,530,000	8,884
Share issue costs	-	(1,067)
Shares issued on exercise of Underwriter's Warrants (ii)	150	-
Shares issued on exercise of stock options	20,000	22
Shares issued on vesting of RSRs	65,000	70
Balance – March 31, 2018	100,672,909	63,083

(Unaudited, expressed in thousands of Canadian dollars)

i) On October 17, 2017, the Company issued 225,000 common shares upon the exercise of 225,000 agent's warrants that were issued in connection with an October 22, 2015 private placement (the "Agent's Warrants") for gross proceeds of $180. A reclassification of $27 from contributed surplus to share capital was recorded on the exercise of the Agent's Warrants.

ii) On November 15, 2017, the Company completed a prospectus offering of 8,760,000 Units concurrently with a private placement of 770,000 Units for an aggregate of 9,530,000 Units of the Company at a purchase price of $1.05 per Unit (the "Offering"). Each Unit (a "Unit") consisted of one common share of the Company and one-half of one common share purchase warrant. Each warrant is exercisable into one common share of the Company at an exercise price of $1.50 per share expiring November 15, 2022. The aggregate gross proceeds of the Offering was $10,006.

Total share issue costs with respect to the Offering amounted to $1,203, which consisted of cash share issue costs of $1,016 related to underwriters' commissions, underwriters' and Company legal fees, transfer agent fees and other expenses, and $187 non-cash share issue costs related to the fair value of 525,539 warrants issued as compensation to the underwriters (the "Underwriter's Warrants").

c) Warrants

The continuity of share purchase warrants during the six months ended March 31, 2018 and 2017 is as follows:

	Number of warrants	**Weighted average exercise price $**	**Fair value at grant date $**
Balance – October 1, 2016 and September 30, 2017	3,350,000	1.17	0.25
Issued:			
Warrants (i) (ii)	4,877,575	1.49	0.27
Underwriter's Warrants (iii)	525,539	1.05	0.36
Exercised:			
Agent's Warrants (i)	(225,000)	0.80	0.35
Underwriter's Warrants (iii)	(150)	1.05	0.36
Balance – March 31, 2018	8,527,964	1.36	0.25

i) On October 17, 2017, the Company issued 112,500 warrants in connection with the exercise of 225,000 Agent's Warrants. Each warrant issued entitles the holder to purchase one common share of the Company at $1.20 expiring on October 22, 2020. The fair value of the warrants at the date of grant was estimated at $0.46 per warrant using the Black-Scholes model based on the following assumptions: Stock price volatility 58%, risk-free interest rate 1.55%, dividend yield 0%, and expected life of 3.0 years.

ii) On November 15, 2017 the Company issued 4,765,000 warrants in connection with the Offering. Each Unit from the Offering consisted of one common share and one-half of a share purchase warrant. Each whole warrant issued is exercisable into one common share of the Company at an exercise price of $1.50 per share expiring on November 15, 2022. The fair value of the warrants at the date of grant was estimated at $0.27 per warrant using the Black-Scholes model based on the following assumptions: Stock price volatility 39%, risk-free interest rate 1.63%, dividend yield 0%, and expected life of 5.0 years.

iii) On November 15, 2017, in connection with the Offering, the Company issued 525,539 Underwriter's Warrants to the underwriters as compensation for the Offering. The fair value of the Underwriter's

(Unaudited, expressed in thousands of Canadian dollars)

Warrants was calculated using the Black-Scholes model to be $187, or $0.36 per each Underwriter's Warrant, and was included in the share issue costs of the Offering. The following assumptions were used in estimating the fair value of the Underwriter's Warrants: Stock price volatility 42%, risk-free interest rate 1.44%, dividend yield 0%, and expected life of 2.0 years. Each Underwriter's Warrant entitles the holder to purchase one common share and one-half of a share purchase warrant at an exercise price of $1.05, and expire on November 15, 2019. The share purchase warrants issued on exercise will have the same terms as the warrants issued as part of the Offering.

On March 23, 2018, 150 of these Underwriter's Warrants were exercised, for 150 common shares and 75 warrants, exercisable into one common share of the Company at an exercise price of $1.50 per share expiring on November 15, 2022.

The following table summarizes the warrants that remain outstanding as at March 31, 2018:

Exercise Price $	Number of Warrants	Expiry Date
1.05	525,389	November 15, 2019
1.20	3,237,500	October 22, 2020
1.50	4,765,075	November 15, 2022
	8,527,964	

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.

(Unaudited, expressed in thousands of Canadian dollars)

The changes in options for the six months ended March 31, 2018 and 2017 were as follows:

	March 31, 2018		March 31, 2017	
	Number of options	**Weighted average exercise price $**	**Number of options**	**Weighted average exercise price $**
Outstanding, beginning of the period	6,611,000	1.14	5,616,000	1.23
Options granted	110,000	1.07	1,910,000	1.10
Options exercised	(20,000)	0.82	(23,333)	0.78
Options expired	(700,000)	1.39	(593,333)	1.76
Outstanding, end of the period	**6,001,000**	**1.11**	**6,909,334**	**1.15**
Exercisable, end of the period	**5,227,670**	**1.11**	**3,540,680**	**1.27**

The weighted average fair value of options granted during the six months ended March 31, 2018 was $0.36 per option (2017 - $0.35).

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, 2018 and 2017:

	Six months ended March 31 ,	
	2018	**2017**
Risk-free interest rate	1.79%	0.99%
Expected life	3.65 years	3.65 years
Estimated volatility	42%	41%
Forfeiture rate	1.27%	1.46%
Dividend rate	0.00%	0.00%

Stock options outstanding as at March 31, 2018 have the following expiry date and exercise prices:

Year of expiry	**Exercise price per share $**	**Number of options**
2018	1.40 - 1.63	335,000
2019	1.10 - 1.40	1,310,000
2020	0.80 - 1.00	176,000
2021	0.89 - 1.28	2,230,000
2022	0.97 - 1.10	1,840,000
2023	1.10 - 1.40	110,000
		6,001,000

During the six months ended March 31, 2018, the Company recorded stock-based compensation expense of $276 (2017 - $361), which includes compensation expense for stock options and for restricted share rights (“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.

(Unaudited, expressed in thousands of Canadian dollars)

The changes in RSRs for the six months ended March 31, 2018 and 2017 were as follows:

	March 31, 2018		March 31, 2017	
	Number of RSRs	Weighted average grant date fair value $	Number of RSRs	Weighted average grant date fair value $
Outstanding, beginning of the period	380,000	1.02	150,000	0.95
RSRs granted	-	-	230,000	1.06
RSRs vested	(65,000)	(1.07)	-	-
RSRs forfeited	-	-	-	-
Outstanding, end of the period	**315,000**	**1.01**	**380,000**	**1.02**

During the six months ended March 31, 2018, stock-based compensation expense of $64 (2017 - $28) was recorded for the RSRs vested during the period. RSRs vest three years from the award date, in accordance with the RSR Plan.

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, 2018 $	September 30, 2017 $
Less than 1 year	370	392
Between 1 and 5 years	914	1,007
More than 5 years	-	48
Total	1,284	1,447

b) Other liability

The Company entered into an Asset Purchase Agreement (the "INAP APA") on December 6, 2010 to acquire the North American patents and know-how for the MIVAP vacuum microwave dehydration technology. On March 28, 2018, the Company renewed its INAP License for the exclusive worldwide rights to the know-how related to the MIVAP Vacuum microwave technology, and agreed to pay minimum annual royalties. The agreements with INAP cover the US, Canadian and worldwide rights. Pursuant to the INAP APA and INAP License, the Company agreed to pay a portion of the license or royalty fees collected from the Company's customers who purchase EnWave equipment that makes use of the acquired patents and know-how. In the case of food applications the percentage is 25%, and for non-food applications it is 12.5%. Additionally, the

(Unaudited, expressed in thousands of Canadian dollars)

Company agreed to pay INAP a fee equal to 2.5% of the net purchase price of each machine sold that makes use of the acquired patents and know-how.

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. The discounted minimum annual royalty amounts are recorded as a liability. As at March 31, 2018, the remaining discounted balance of the liability is $490 (September 30, 2017 - $41) and is payable on an undiscounted basis as follows:

	Undiscounted royalties payable USD $	**Undiscounted royalties payable CAD $**
2018	50	64
2019	100	129
2020	100	129
2021	100	129
2022	100	129
2023	4	5
Total	454	585

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.

Remuneration of key management personnel of the Company during the three and six months ended March 31, 2018 and 2017 comprises the following expenses:

	Three months ended March 31,		**Six months ended March 31,**	
	2018 $	**2017 $**	**2018 $**	**2017 $**
Salaries, bonuses, short-term and long-term employee benefits	173	139	579	433
Stock-based compensation	43	93	105	154
	216	232	684	587

b) Sale of goods

During the six months ended March 31, 2018 the Company did not have any sales to related parties. The Company, through its subsidiary NutraDried, recorded sales of $1,392 to Spire Brands, LLC (“Spire”) for the six months ended March 31, 2017. Spire is related to NutraDried by way of Creations’ equity ownership interest in Spire; Creations was the former non-controlling partner of NutraDried. The Company terminated its Master Distribution Agreement (“MDA”) with Spire effective on January 15, 2017. The sales terms with Spire were governed by the MDA between the Company and Spire and were on terms equivalent to those that prevail in arm’s length transactions.

(Unaudited, expressed in thousands of Canadian dollars)

c) Purchases from related parties

The Company had purchases from related parties for the three and six months ended March 31, 2018 and 2017 in the normal course of business as shown in the table below:

	Three months ended March 31,		Six months ended March 31,	
	2018 **$**	**2017** **$**	**2018** **$**	**2017** **$**
Consulting, management and directors' fees	22	56	45	255
Stock-based compensation	23	29	52	58
Facilities rent and other	2	6	7	32
	47	91	104	345

d) Balances payable to related parties

The following amounts are due to related parties:

	March 31, 2018 **$**	**September 30, 2017** **$**
Equipment loans to BW Leasing (i)	-	154
Other payables to related parties (ii)	12	10
	12	164

	March 31, 2018 **$**	**September 30, 2017** **$**
Current portion	12	74
Long-term portion	-	90
	12	164

(i) BW Leasing is an entity under common control of Creations, the former non-controlling interest partner in NutraDried.

(ii) Other payables to related parties include amounts due for rent, expense reimbursements, and other accruals.

e) Balances receivable from related parties:

	March 31, 2018 **$**	**September 30, 2017** **$**
Directors of the Company	25	-
	25	-

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
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

The fair value of financial assets and liabilities classified as loans and receivables and other financial liabilities (excluding other liability) approximates 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 Company did not hold any held-to-maturity or available-for-sale financial instruments during the six months ended March 31, 2018 and 2017.

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.

(Unaudited, expressed in thousands of Canadian dollars)

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, 2018, and September 30, 2017, 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.

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, 2018:

	Neither past due nor impaired	**Past due but not impaired**		
	0 - 30	**31 - 90**	**91 - 365**	**Over 365**
Trade receivables	2,170	101	168	-
Due from customers on contract	2,118	-	-	-
	4,288	101	168	-

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, 2018 were due to be settled within nine months.

(Unaudited, expressed in thousands of Canadian dollars)

The Company attempts to ensure that sufficient funds are raised from equity financing 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, 2018, the Company had cash and cash equivalents of $7,480 to settle current liabilities of $3,296.

a) Financial assets maturity table:

	0 - 30	**31 - 90**	**91 - 365**	**Over 365**
Cash and cash equivalents and restricted cash	7,480	-	250	-
Trade receivables	2,439	-	-	-
Due from customers on contract	175	918	1,025	-
	10,094	918	1,275	-

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

	0 - 30	**31 - 90**	**91 - 365**	**Over 365**
Trade and other payables	2,035	224	600	-
Amounts due to related parties	12	-	-	-
	2,047	224	600	-

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, 2018 ranged from 1.10% to 1.87% (2017 - 0.60% to 1.40%). A 1% change in interest rates would affect the results of operations by approximately $29 (2017 - $29).

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;

(Unaudited, expressed in thousands of Canadian dollars)

(ii) The Company is exposed to currency risk through an increasing number of customers with contracts denominated in US dollars;

(iii) 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, 2018, 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 when appropriate. At March 31, 2018, and September 30, 2017 the Company held no foreign exchange contracts. 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 net loss for the six months ended March 31, 2018 and 2017 as follows:

	2018	**2017**
Currency	**$**	**$**
US dollar	155	412
Euro	8	36

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.

(Unaudited, expressed in thousands of Canadian dollars)

14 Revenues

a) Revenue breakdown for the three and six months ended March 31, 2018 and 2017 is as follows:

	Three months ended March 31,		Six months ended March 31,	
	2018 $	2017 $	2018 $	2017 $
Equipment sales and construction contracts	1,432	2,399	3,060	4,125
Product sales	2,367	1,339	4,765	2,661
Equipment rental fees, testing fees and other	255	368	545	665
Royalties and licensing fees	118	77	321	199
	4,172	4,183	8,691	7,650

Included in due from customers on contract on the consolidated statement of financial position is $2,118 (September 30, 2017 - $2,378) 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 $331 (September 30, 2017 - $926) 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, 2018 and 2017 were as follows:

	March 31, 2018		March 31, 2017	
Customer	**$**	**%**	**$**	**%**
A	1,234	14	1,392	18
B	1,121	13	1,258	16
C	1,044	12	1,233	16
D	1,027	12	-	-
Others	4,265	49	3,767	50
	8,691	100	7,650	100

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

	March 31, 2018		September 30, 2017	
Customer	**$**	**%**	**$**	**%**
X	531	22	574	22
Y	254	10	551	21
Others	1,654	68	1,492	57
	2,439	100	2,617	100

(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, 2018 and 2017 are shown below.

	Three months ended March 31,		Six months ended March 31,	
Details of expenses by nature	**2018 $**	**2017 $**	**2018 $**	**2017 $**
Cost of materials	1,746	2,247	3,717	4,012
Salaries, wages and employee expenses	1,336	1,155	2,631	2,409
Professional services	309	299	527	493
Travel and promotional costs	448	198	849	328
Rent	133	100	253	213
Depreciation of plant and equipment	295	231	639	466
Other expenses	132	86	283	155
Office and courier	64	58	112	112
Total expenses	4,463	4,374	9,011	8,188

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 comprises the EnWave USA operating segment. The results of operations and the assets for each segment are shown below.

As at	**March 31, 2018**			**September 30, 2017**		
	EnWave Canada $	**EnWave USA $**	**Total $**	**EnWave Canada $**	**EnWave USA $**	**Total $**
Assets						
Trade receivables	671	1,768	2,439	1,823	794	2,617
Receivable from related parties	25	-	25	-	-	-
Inventory	3,191	806	3,997	2,433	540	2,973
Plant and equipment	998	1,382	2,380	1,225	1,450	2,675
Intangible assets	1,197	15	1,212	929	17	946
	6,082	3,971	10,053	6,410	2,801	9,211
Liabilities						
Trade and other payables	1,954	905	2,859	1,751	430	2,181
Amounts due to related parties	12	-	12	10	154	164
Customer deposits and deferred revenue	331	-	331	926	-	926
Other liability	490	-	490	41	-	41
	2,787	905	3,692	2,728	584	3,312

(Unaudited, expressed in thousands of Canadian dollars)

Six months ended	**March 31, 2018**			**March 31, 2017**		
	EnWave Canada $	**EnWave USA $**	**Total $**	**EnWave Canada $**	**EnWave USA $**	**Total $**
Revenues	3,889	4,802	8,691	4,986	2,664	7,650
Expenses	(5,891)	(3,716)	(9,607)	(6,601)	(2,446)	(9,047)
Net (loss) income	(2,002)	1,086	(916)	(1,615)	218	(1,397)

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 account for approximately 45% of the consolidated revenues. Revenues for EnWave USA relate to product sales referred to in note 14(a) and account for approximately 55% of the consolidated revenues.