ENWAVE CORPORATION

Consolidated Financial Statements

Years ended September 30, 2018 and 2017

(expressed in thousands of Canadian dollars)

December 14, 2018

Independent Auditor's Report

To the Shareholders of
EnWave Corporation

We have audited the accompanying consolidated financial statements of EnWave Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at September 30, 2018 and September 30, 2017 and the consolidated statements of loss, comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

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Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of EnWave Corporation and its subsidiaries as at September 30, 2018 and September 30, 2017 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

EnWave Corporation

Consolidated Statements of Financial Position

As at September 30, 2018 and 2017

(expressed in thousands of Canadian dollars)

	Note	2018	2017
		$	$
Assets			
Current assets			
Cash and cash equivalents	4(a)	**9,101**	1,319
Restricted cash	4(b)	**250**	250
Trade receivables	5	**3,522**	2,617
Due from customers on contract	16(a)	**727**	2,378
Prepaids and other receivables	6	**285**	186
Inventory	7	**2,873**	2,973
		16,758	9,723
Non-current assets			
Plant and equipment	9	**4,452**	2,675
Intangible assets	8	**952**	946
		5,404	3,621
Total assets		**22,162**	13,344
Liabilities			
Current liabilities			
Trade and other payables	10	**3,037**	2,181
Amounts due to related parties	13(d)	**19**	74
Customer deposits and deferred revenue	16(a)	**1,201**	926
Income taxes payable	14	**392**	-
Current portion of other liability	12(b)	**98**	41
		4,747	3,222
Non-current liabilities			
Amounts due to related parties	13(d)	**-**	90
Deferred income tax liability	14	**146**	-
Long-term portion of other liability	12(b)	**347**	-
		493	90
Total liabilities		**5,240**	3,312
Equity			
Attributable to shareholders of the parent			
Share capital	11(b)	**63,391**	54,967
Warrants	11(c)	**1,895**	749
Contributed surplus		**7,582**	7,322
Foreign currency translation reserve		**548**	430
Deficit		**(56,494)**	(55,199)
		16,922	8,269
Non-controlling interest		**-**	1,763
Total equity		**16,922**	10,032
Total liabilities and equity		**22,162**	13,344
Contingencies and commitments	12		

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

EnWave Corporation

Consolidated Statements of Loss

For the years ended September 30, 2018 and 2017

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

	Note	2018 $	2017 $
Revenues	16	**22,825**	15,954
Direct costs		**(13,915)**	(11,654)
		8,910	4,300
Expenses			
General and administration		**2,439**	2,072
Sales and marketing		**3,731**	2,160
Research and development		**1,213**	1,138
Stock-based compensation	11(d)	**545**	891
Amortization of intangible assets	8	**573**	888
Impairment of contract	18	**865**	-
Foreign exchange loss		**11**	102
Finance (income) expense, net		**(60)**	35
		9,317	7,286
Loss for the year before income taxes		**(407)**	(2,986)
Income tax expense			
Current	14	**392**	-
Deferred	14	**146**	-
Net loss for the year		**(945)**	(2,986)
Net (loss) income attributed to:			
Shareholders of the parent company		**(1,295)**	(3,391)
Non-controlling interest		**350**	405
		(945)	(2,986)
Loss per common share			
Basic and diluted		**(0.01)**	(0.04)
Weighted average number of shares outstanding			
Basic and diluted		**99,509,869**	90,799,717

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

EnWave Corporation

Consolidated Statements of Comprehensive Loss

For the years ended September 30, 2018 and 2017

(expressed in thousands of Canadian dollars)

	Note	2018 $	2017 $
Net loss for the year		**(945)**	(2,986)
Other comprehensive loss			
Items that may be subsequently reclassified to profit or loss			
Foreign exchange translation		**199**	(129)
Total comprehensive loss for the year		**(746)**	(3,115)
Comprehensive (loss) income attributed to:			
Shareholders of the parent company		**(1,178)**	(3,456)
Non-controlling interest	1	**432**	341
Total comprehensive loss for the year		**(746)**	(3,115)

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

EnWave Corporation

Consolidated Statements of Changes in Equity

For the years ended September 30, 2018 and 2017

(expressed in thousands of Canadian dollars)

	Attributable to shareholders of the parent								
	Share capital								
	Amount	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 year	-	-	-	-	-	(3,391)	(3,391)	405	(2,986)
Effects of foreign currency translation	-	-	-	-	(65)	-	(65)	(64)	(129)
Shares issued on exercise of options	60,000	62	-	(15)	-	-	47	-	47
Restricted share rights	-	-	-	93	-	-	93	-	93
Stock-based compensation	-	-	-	798	-	-	798	-	798
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 year	-	-	-	-	-	(1,295)	(1,295)	350	(945)
Effects of foreign currency translation	-	-	-	-	118	-	118	81	199
Acquisition of non-controlling interest	-	-	-	(126)	-	-	(126)	(2,194)	(2,320)
Shares issued with private placement	9,530,000	8,884	1,310	-	-	-	10,194	-	10,194
Share issue costs	-	(1,069)	(134)	-	-	-	(1,203)	-	(1,203)
Shares issued on exercise of agent's warrants	225,000	207	(27)	-	-	-	180	-	180
Shares issued on exercise of warrants	11,050	14	(3)	-	-	-	11		11
Shares issued on exercise of options	247,600	303	-	(74)	-	-	229	-	229
Shares issued on vesting of restricted share rights	80,000	85	-	(85)	-	-	-	-	-
Restricted share rights	-	-	-	150	-	-	150	-	150
Stock-based compensation	-	-	-	395	-	-	395	-	395
Balance – September 30, 2018	100,926,409	63,391	1,895	7,582	548	(56,494)	16,922	-	16,922

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

EnWave Corporation

Consolidated Statements of Cash Flows

For the years ended September 30, 2018 and 2017

(expressed in thousands of Canadian dollars)

	Note	2018 $	2017 $
Cash flows from operating activities			
Net loss for the year		**(945)**	(2,986)
Items not affecting cash			
Depreciation and amortization		**1,978**	1,964
Impairment of contracts	18	**865**	-
Stock-based compensation	11(d)	**545**	891
Loss on disposal of plant and equipment	9	**-**	7
Finance expense, net		**(60)**	35
Income tax expense	14	**538**	-
Foreign exchange loss		**8**	102
		2,929	13
Changes in non-cash working capital			
Trade receivables		**(822)**	(1,931)
Prepaids and other receivables		**(98)**	15
Inventory		**340**	(1,182)
Trade and other payables		**849**	797
Due to/from related parties		**(156)**	230
Due from customers on contract and deferred revenue		**1,048**	(609)
Net cash generated from (used in) operating activities		**4,090**	(2,667)
Cash flows from investing activities			
Acquisition of plant and equipment		**(3,055)**	(211)
Disposition of plant and equipment		**-**	15
Acquisition of intangible assets		**(68)**	-
Acquisition of non-controlling interest in NutraDried	1	**(2,310)**	-
Finance income received		**76**	28
Net cash used in investing activities		**(5,357)**	(168)
Cash flows from financing activities			
Proceeds from private placement	11(b)	**10,006**	-
Share issue costs	11(b)	**(1,016)**	-
Proceeds from exercise of stock options	11(d)	**229**	47
Proceeds from exercise of warrants	11(c)	**192**	-
Payment of other liability	12(b)	**(441)**	(427)
Net cash generated from (used in) financing activities		**8,970**	(380)
Cash flows generated (used) during the year		**7,703**	(3,215)
Effect of foreign exchange translation on cash		**79**	(56)
Increase (decrease) in cash and cash equivalents		**7,782**	(3,271)
Cash and cash equivalents - Beginning of the year		**1,319**	4,590
Cash and cash equivalents - End of the year		**9,101**	1,319
Non-cash transactions			
Acquisition of plant and equipment through accounts payable		**51**	-
Warrants issued for share issue costs		**191**	-
Acquisition of intangible assets through other liability		**511**	-

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'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 $2,310). 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 annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements were approved for issuance by the Board of Directors on December 14, 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 $247 (2017 - $680).

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 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. 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 following policies have been applied to the consolidated financial statements presented:

Basis of measurement

These consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB. The consolidated financial statements have been prepared under the historical cost convention, except for derivative contracts which are measured at fair value.

Accounting standards and amendments issued and not yet adopted

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*. 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 mandatory effective date of IFRS 15 is for years starting on or after January 1, 2018, with earlier application permitted. The Company intends to adopt IFRS 15 in its consolidated financial statements for the year commencing October 1, 2018.

This standard may be adopted using a full retrospective or modified retrospective approach. The Company intends to adopt IFRS 15 on October 1, 2018 using the modified retrospective approach where the cumulative impact of adoption will be recognized in retained earnings as of October 1, 2018 and comparatives will not be restated. The Company has performed an assessment of the potential effect of IFRS 15 on its consolidated financial statements, including the timing of revenue recognition. Based on the Company's assessment, the adoption of this new standard does not have a material impact on the timing of revenue recognition on its consolidated financial statements. The Company is evaluating the impact of presentation requirements of IFRS 15 on its consolidated financial statements.

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. The Company does not expect there to be a significant impact to the consolidated financial statements upon adoption of IFRS 9.

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.

Principles of consolidation and non-controlling interest

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies. Subsidiaries are consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

The Company recognizes any non-controlling interest on an acquisition-by-acquisition basis at the non-controlling interest's proportionate share of the recognized amounts of the subsidiary's identifiable net assets at the date of acquisition.

The Company's subsidiaries are:

- EnWave USA Corporation, incorporated in the state of Delaware, USA (100% owned by the Company)

- NutraDried Food Company, LLC, a limited liability corporation incorporated in Washington, USA (EnWave USA Corporation owns 100%)

Intercompany balances and transactions, including income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

When the Company ceases to consolidate a subsidiary due to a loss of control of the entity, the investment in the entity is re-measured to its fair value with the change in carrying amount recognized in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date. The Company measures goodwill at the acquisition date as the fair value of the consideration transferred including any non-controlling interest less the fair value of the identifiable assets acquired and liabilities assumed. Transaction costs in connection with business combinations are expensed as incurred.

Foreign currency translation

Functional and reporting currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These consolidated financial statements are presented in Canadian dollars, which is the Company's reporting currency.

Transactions and balances

Foreign currency transactions are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions or the date of valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of the monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive loss.

Consolidation

The results and financial position of all the companies that have a functional currency different from the reporting currency are translated into the reporting currency as follows:

i) assets and liabilities are translated at the closing rate at the date of that statement of financial position;

ii) income and expenses are translated at average exchange rates; and

iii) all resulting exchange differences are recognized in other comprehensive income (loss) and accumulated in other comprehensive income (loss) within equity.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

Restricted cash

Restricted cash is cash that has been pledged as collateral for the Company's foreign exchange derivative contracts and corporate credit card.

Financial instruments

The Company classifies its financial instruments based on the purpose for which the financial assets and liabilities were acquired. Management determines the classification of the financial assets and liabilities at initial recognition. The Company has the following types of financial assets and liabilities:

a) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise trade receivables, cash and cash equivalents, due from customers on contract and restricted cash, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received and subsequently carried at amortized cost using the effective interest rate method with gains and losses recorded in the consolidated statement of loss.

b) Other financial liabilities: Other financial liabilities are carried at amortized cost and include trade and other payables, amounts due to related parties, customer deposits and deferred revenue, and other liability. They are initially recognized at the amount required to be paid, and subsequently measured at amortized cost using the effective interest rate method with gains or losses recorded in the consolidated statement of loss.

c) Derivative contracts: Derivative contracts are categorized as financial assets and liabilities carried at fair value through profit or loss, and have not been designated in hedge accounting relationships. Derivative contracts are included in current assets and current liabilities, except for those with maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets and liabilities. Derivative assets are presented within prepaids and other receivables. Derivative liabilities are presented within trade and other payables.

Impairment of financial and non-financial assets

Financial assets

The Company assesses its financial assets, which include loans and receivables, at each reporting date to determine whether there is any objective evidence that they are impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect to loans and receivables is calculated as the difference between their carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

All impairment losses are recognized in the consolidated statement of loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets, which includes intangible assets, are reviewed at each reporting date to determine whether there are any events or changes that are indicators of impairment. If such an indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together in the smallest group of assets that generate cash inflows from continuing use that is largely independent of the cash inflows of other assets or groups of assets or CGUs. The recoverable amount of an asset or CGU is the greater of its value in use and fair value less costs to sell. In assessing value in use, future discounted cash flows are estimated. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the consolidated statement of loss. The Company evaluates impairment losses for potential reversals (other than goodwill) when events or circumstances warrant such consideration.

Inventory

Inventories comprise machine parts and work in progress, food products and packaging supplies. The cost of inventory includes direct material costs, direct labour, and an allocation of variable and fixed manufacturing overhead, including depreciation. Inventories are valued at the lower of cost and net realizable value. Cost is determined using the weighted average basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. If the carrying value exceeds the net realizable amount, a write-down is recognized. The write-down may be reversed in a subsequent period if the circumstances that caused it no longer exist.

The Company rents its machinery on a short-term basis to companies evaluating the machinery. When the term of the rental agreement is less than 12 months, the machinery is recorded as an asset in inventory. Amortization is not recorded where leases are short term in nature as the asset can be redeployed without significant modification. When the term of the rental agreement exceeds 12 months, the machinery is recorded as an asset in plant and equipment as commercial equipment and amortized to income.

Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. Repairs and maintenance costs are charged to the consolidated statement of loss during the period in which they are incurred. Depreciation is provided using the straight-line method at the following annual rates:

Office plant and equipment	3 to 5 years
Manufacturing plant and equipment	3 to 5 years
Commercial equipment	5 years
Leasehold improvements	Shorter of lease term or useful life

The Company allocates the amount initially recognized in respect of an item of plant and equipment to its significant parts and depreciates separately each such part. The carrying amount of a replaced part is derecognized when replaced. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Intangible assets

The Company's intangible assets are stated at cost less accumulated amortization and include acquired licensed technology with finite useful lives. These assets are capitalized and amortized on a straight-line basis over their expected useful lives as follows:

Computer software	3 years
Acquired patents and technology licenses	Over the period of the agreement of 5 to 10 years

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The Company evaluates the recoverability of intangible assets based on the expected utilization of the underlying technologies.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated and discounted where the effect is material. The Company's provisions include estimates in relation to warranties offered on sales of machines.

Share capital

Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

Loss per share

Basic loss per share is calculated by dividing the net loss for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the period.

Diluted loss per share is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The Company's potentially dilutive common shares comprise stock options, Restricted Share Rights ("RSRs") and warrants.

Revenue recognition

Construction contracts

The Company designs and builds equipment to meet customers' specific needs. A construction or engineering contract is defined by International Accounting Standard ("IAS") 11, *Construction Contracts*, as a contract specifically negotiated for the construction of an asset.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognized over the period of the contract by reference to the stage of completion. Contract costs are recognized as expenses in the period they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable.

The Company uses the percentage-of-completion method to determine the amount of revenue to recognize in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion.

On the consolidated statement of financial position, the Company reports the net contract position for each contract as either an asset or a liability. A contract represents an asset (due from customers on contract) where costs incurred plus recognized profits (less recognized losses) exceed progress billings; a contract represents a liability (customer deposits and deferred revenue) where the progress billings exceed the costs incurred plus recognized profits.

Sales of products

Sales of products are recognized when the significant risks and rewards of ownership have been transferred to the customer, the sales price and costs can be measured reliably, and it is probable that the economic benefits will flow to the Company. Revenue is adjusted for the value of expected returns. These criteria are generally met at the time the product is shipped, title and risk have passed to the customer and acceptance of the product, when contractually required, has been obtained. Revenue is measured based on the price specified in the sales contract and net of discounts at the time of sale.

Equipment rental fees

The Company rents its dehydration equipment on a short-term basis to certain companies in the technology evaluation process. The rental income is recorded on a straight-line basis over the rental period.

Royalties and licensing fees

Royalties and licensing fees are recognized when there is a binding right to receive such payments pursuant to the terms of the relevant agreement.

Research and development

Research costs are expensed as incurred in the consolidated statement of loss. Development costs are expensed as incurred unless capitalization criteria under IFRS are met for deferral and amortization.

Stock-based compensation

The Company grants stock options and RSRs to certain employees and directors of the Company as equity settled, stock-based compensation. The Company applies the fair value method of accounting for stock-based compensation. The fair value at grant date of stock options is estimated using the Black-Scholes option-pricing model. The fair value of RSRs is measured based on the fair value of the underlying shares on the grant date. Compensation cost is recognized over the expected vesting period of the stock-based compensation. The

(expressed in thousands of Canadian dollars)

Company estimates the number of units expected to vest at the grant date and revises the estimate as necessary if subsequent information indicates that the actual number of units vesting differs significantly from the original estimate.

Current and deferred income taxes

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related taxable benefit will be realized. Deferred tax is measured at the tax rates that are expected to apply to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. To the extent that future taxable income and the application of existing tax laws differ significantly from the Company's estimate, the ability of the Company to realize the deferred tax assets could be impacted.

4 Cash and cash equivalents and restricted cash

a) Cash and cash equivalents

As at September 30, 2018, the Company had $9,101 (2017 - $1,319) in cash funds held in current accounts.

b) Restricted cash

As at September 30, 2018, the Company had a $250 (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:

	2018 $	2017 $
Trade receivables	3,522	2,617
Less: Allowance for doubtful accounts	-	-
	3,522	2,617

(expressed in thousands of Canadian dollars)

6 Prepaids and other receivables

	2018 $	2017 $
Prepaid expenses	279	172
Indirect tax receivable	5	14
Other receivables	1	-
	285	186

7 Inventory

	2018 $	2017 $
Machine parts and work-in-progress	1,718	2,433
Food products	942	448
Packaging supplies	213	92
	2,873	2,973

There were no write-downs of inventory during the years ended September 30, 2018 and 2017.

8 Intangible assets

	Acquired patents and technology licenses $	Computer software $	Total $
Year ended September 30, 2017			
Opening net book value	1,834	-	1,834
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
Year ended September 30, 2018			
Opening net book value	946	-	946
Additions	511	68	579
Amortization	(561)	(12)	(573)
Closing net book value	896	56	952
At September 30, 2018			
Cost	9,584	68	9,652
Accumulated amortization	(8,688)	(12)	(8,700)
Net book value	896	56	952

(expressed in thousands of Canadian dollars)

As at September 30, 2018, the remaining amortization period for intangible assets ranges from eight months to four years (2017 – eight months to four 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 Plant and equipment

	Office plant and equipment $	Manufacturing plant and equipment $	Commercial equipment $	Leasehold improvements $	Total $
Year ended September 30, 2017					
Opening net book value	62	2,583	841	193	3,679
Additions	47	132	-	32	211
Disposals					
Cost	-	(21)	-	(43)	(64)
Depreciation	-	5	-	36	41
Depreciation	(36)	(728)	(271)	(87)	(1,122)
Reclassification	-	(102)	102	-	-
Currency translation adjustments	(2)	(61)	-	(7)	(70)
Closing net book value	71	1,808	672	124	2,675
At September 30, 2017					
Cost	254	4,484	1,274	636	6,648
Accumulated depreciation	(183)	(2,676)	(602)	(512)	(3,973)
Net book value	71	1,808	672	124	2,675
Year ended September 30, 2018					
Opening net book value	71	1,808	672	124	2,675
Additions	118	2,836	-	152	3,106
Depreciation	(50)	(866)	(405)	(78)	(1,399)
Currency translation adjustments	1	63	-	6	70
Closing net book value	140	3,841	267	204	4,452
At September 30, 2018					
Cost	372	7,320	1,274	788	9,754
Accumulated depreciation	(232)	(3,479)	(1,007)	(584)	(5,302)
Net book value	140	3,841	267	204	4,452

(expressed in thousands of Canadian dollars)

As at September 30, 2018, $267 (2017 - $672) of commercial equipment was leased to a customer under an operating lease. During the year ended September 30, 2017, $102 of equipment was reclassified from manufacturing plant and equipment to commercial equipment.

10 Trade and other payables

	2018 $	2017 $
Trade payables	1,432	1,194
Accrued liabilities	1,221	278
Personnel related accruals	218	543
Provision for warranty	153	166
Indirect taxes payable	13	-
	3,037	2,181

11 Share capital

a) Authorized: unlimited number of voting common shares without par value. Issued and outstanding: 100,926,409

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

b) Issued and fully paid:

	Number	Share capital Value $
Balance – September 30, 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 (ii)	-	(1,069)
Shares issued on exercise of Underwriter's Warrants (ii)	10,975	14
Shares issued on exercise of Investor's Warrants	75	0
Shares issued on exercise of stock options	247,600	303
Shares issued on vesting of RSRs	80,000	85
Balance – September 30, 2018	100,926,409	63,391

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.

(expressed in thousands of Canadian dollars)

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 years ended September 30, 2018 and 2017 is as follows:

	Number of warrants	**Weighted average exercise price $**	**Fair value at grant date $**
Balance – September 30, 2016 and September 30, 2017	3,350,000	1.17	0.25
Issued:			
Warrants (i) (ii)	4,882,987	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)	(10,975)	1.05	0.36
Investor's Warrants (ii)	(75)	1.50	0.24
Balance – September 30, 2018	8,522,476	1.36	0.27

i) 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 Agent's Warrants were exercised by the underwriter 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.

During the year ended September 30, 2018, 75 of these Investor's Warrants were exercised for 75 common shares at an exercise price of $1.50.

(expressed in thousands of Canadian dollars)

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 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.

During the year ended September 30, 2018, 10,975 Underwriter's Warrants were exercised, for 10,975 common shares and 5,487 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 September 30, 2018:

Exercise price $	**Number of warrants**	**Expiry date**
1.05	514,564	November 15, 2019
1.20	3,237,500	October 22, 2020
1.50	4,770,412	November 15, 2022
	8,522,476	

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 according to 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.

(expressed in thousands of Canadian dollars)

The changes in options for the years ended September 30, 2018 and 2017 were as follows:

	2018		2017	
	Number of options	**Weighted average exercise price $**	**Number of options**	**Weighted average exercise price $**
Outstanding, beginning of the year	6,611,000	1.14	5,616,000	1.23
Options granted	1,952,600	1.19	1,950,000	1.09
Options exercised	(247,600)	0.92	(60,000)	0.78
Options expired or forfeited	(1,024,999)	1.43	(895,000)	1.66
Outstanding, end of the year	**7,291,001**	**1.12**	**6,611,000**	**1.14**
Exercisable, end of the year	**5,381,735**	**1.10**	**4,621,006**	**1.18**

The weighted average fair value of options granted during the year ended September 30, 2018 was $0.41 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 years ended September 30, 2018 and 2017:

	2018	**2017**
Risk-free interest rate	2.20%	0.99%
Expected life	3.64 years	3.64 years
Estimated volatility	43%	41%
Forfeiture rate	1.27%	1.46%
Dividend rate	0.00%	0.00%

Stock options outstanding as at September 30, 2018 have the following expiry dates and exercise prices:

Year of expiry	**Exercise price per share $**	**Number of options**
2018	1.40	135,000
2019	1.10 – 1.40	1,275,000
2020	0.80 – 1.00	156,000
2021	0.84 – 1.28	2,002,400
2022	0.97 – 1.10	1,770,001
2023	1.07 – 1.34	1,952,600
		7,291,001

During the year ended September 30, 2018, the Company recorded stock-based compensation expense of $545 (2017 - $891), 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.

(expressed in thousands of Canadian dollars)

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 years ended September 30, 2018 and 2017 were as follows:

	2018		**2017**	
	Number of RSRs	**Weighted average grant date fair value $**	**Number of RSRs**	**Weighted average grant date fair value $**
Outstanding, beginning of the year	380,000	1.02	150,000	0.95
RSRs granted	410,000	1.36	230,000	1.06
RSRs vested	(80,000)	1.06	-	-
RSRs forfeited	-	-	-	-
Outstanding, end of the year	**710,000**	**1.21**	**380,000**	**1.02**

During the year ended September 30, 2018, stock-based compensation expense of $150 (2017 - $93) was recorded for the RSRs vested during the period. RSRs vest three years from the award date, in accordance with the RSR Plan.

12 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. At September 30, the future minimum lease payments, including operating costs, under non-cancellable leases were as follows:

	2018 $	**2017 $**
Less than 1 year	657	392
Between 1 and 5 years	1,337	1,007
More than 5 years	-	48
Total	1,994	1,447

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. 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

(expressed in thousands of Canadian dollars)

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. For usage in North America, the Company remits 25% for food applications and 12.5% for non-food applications, and the agreement expires on February 3, 2019. For usage outside of North America, the Company remits 25% for food applications and 12.5% for non-food applications, and the agreement expires on October 15, 2022. Additionally, the 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 September 30, 2018, the remaining discounted balance of the liability is $445 (September 30, 2017 - $41) and is payable on an undiscounted basis as follows:

	Undiscounted royalties payable USD $	**Undiscounted royalties payable CAD $**
2019	100	129
2020	100	129
2021	100	129
2022	100	129
2023	4	5
Total	404	521

The table below provides a reconciliation of the changes in other liability arising from financing activities:

	Other liability $
Balance – October 1, 2017	41
Cash flows	(441)
Non-cash changes	
Acquisitions	511
Interest expense	29
Foreign exchange	22
Change in trade and other payables	283
Balance – September 30, 2018	445

13 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 years ended September 30, 2018 and 2017 comprises the following expenses:

(expressed in thousands of Canadian dollars)

	2018 **$**	**2017** **$**
Salaries, bonuses, severance and short-term employee benefits	1,119	713
Stock-based compensation	225	378
	1,344	1,091

b) Sale of goods

During the year ended September 30, 2018, the Company did not have any sales to related parties. During the year ended September 30, 2017, the Company, through its subsidiary NutraDried, recorded sales of $1,527 to Spire Brands, LLC ("Spire"). Spire was related to NutraDried by way of Creations' equity ownership interest in Spire; Creations is 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.

c) Purchases from related parties

The Company had purchases from related parties for the years ended September 30, 2018 and 2017 in the normal course of business as shown in the table below:

	2018 **$**	**2017** **$**
Consulting, management and directors' fees	90	350
Stock-based compensation	122	141
Facilities rent and other	7	43
	219	534

d) Balances payable to related parties:

The following amounts are due to related parties on September 30, 2018 and 2017:

	2018 **$**	**2017** **$**
Equipment loans due to BW Leasing (i)	-	154
Other payables to related parties (ii)	19	10
	19	164

	2018 **$**	**2017** **$**
Current portion	19	74
Long-term portion	-	90
	19	164

(expressed in thousands of Canadian dollars)

(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 expense reimbursements and other accruals.

14 Income taxes

The provision for income taxes is based on the combined federal and provincial statutory income tax rates. A reconciliation of income taxes at the statutory rate to actual income taxes is as follows:

	2018 $	2017 $
Combined statutory tax rate	26.75%	26%
Income tax recovery at the statutory tax rate	(120)	(777)
Permanent differences	246	111
Effect of different statutory rates	(103)	19
Effect of unrecognized deferred tax assets	515	647
	538	-

The Company's income tax is allocated as follows:

	2018 $	2017 $
Current tax expense	392	-
Deferred tax expense	146	-
	538	-

The statutory tax rate increased from 26.00% to 26.75% due to an increase in the provincial statutory tax rate on January 1, 2018.

The analysis of deferred tax liabilities is as follows:

Deferred tax liabilities	**2017** **$**	**Charged to Earnings** **$**	**Charged to Other Comprehensive Income** **$**	**2018** **$**
Plant and equipment	-	(146)	(1)	(147)
Total deferred tax liabilities	**-**	**(146)**	**(1)**	**(147)**

Deferred tax assets are recognized for deductible temporary differences to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company did not recognize deferred income tax assets due to the uncertainty of future taxable profits. The Company's unrecognized temporary differences are as follows:

(expressed in thousands of Canadian dollars)

	2018 $	2017 $
Non-capital losses	21,625	19,430
Net operating losses	-	1,064
Net capital losses	3,399	3,545
Scientific research and experimental development expenses	7,430	7,339
Investment tax credits	2,609	2,465
Plant and equipment and intangible assets	8,218	6,973
Other	404	503
Total unrecognized deferred tax assets	43,685	41,319

The Company has non-capital losses for Canadian income tax purposes of approximately $21,625 (2017 - $19,430) that are available to reduce future year's taxable income. These losses will expire from 2026 to 2038.

15 Financial instruments and risk management

The Company's cash and cash equivalents, restricted cash, trade receivables, 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
Income tax payable	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 carrying value of other liability as at September 30, 2018 was $445 (2017 - $41) 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 years ended September 30, 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.

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 September 30, 2018, and 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.

(expressed in thousands of Canadian dollars)

The following table provides information regarding the aging of receivables as at September 30, 2018:

	Neither past due nor impaired	**Past due but not impaired**		
	0 – 30	**31 – 90**	**91 – 365**	**Over 365**
Trade receivables	3,255	68	199	-
Due from customers on contract	727	-	-	-
Indirect tax receivable	5	-	-	-
	3,987	68	199	-

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. At September 30, 2018 The Company held no foreign exchange derivatives outstanding.

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 September 30, 2018, the Company had cash and cash equivalents of $9,101 to settle current liabilities of $4,747. On November 15, 2017, the Company completed an equity financing for total gross proceeds of $10,006 (note 11).

a) Financial assets maturity table:

	0 – 30	**31 – 90**	**91 – 365**	**Over 365**
Cash and cash equivalents and restricted cash	9,101	-	250	-
Trade receivables	3,255	68	199	-
Due from customers on contract	-	727	-	-
Indirect tax receivable	5	-	-	-
	12,361	795	449	-

(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	3,037	-	-	-
Amounts due to related parties	19	-	-	-
Indirect tax payable	13	-	-	-
Income tax payable	392	-	-	-
	3,461	-	-	-

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 year ended September 30, 2018 ranged from 0.60% to 2.20% (2017 - 0.60% to 1.40%). A 1% change in interest rates would affect the results of operations by approximately $51 (2017 - $19).

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;

(ii) The Company is exposed to currency risk through customers with sales 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 and Swedish Kronor;

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 September 30, 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. At September 30, 2018 and 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.

(expressed in thousands of Canadian dollars)

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 years ended September 30, 2018 and 2017 as follows:

	2018 $	2017 $
Currency		
US dollar	810	685
Euro	4	11

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.

16 Revenues

a) Revenue breakdown for the years ended September 30, 2018 and 2017 is as follows:

	2018 $	2017 $
Equipment sales and construction contracts	4,900	7,764
Product sales	16,474	6,552
Equipment rental fees, testing fees and other	880	1,268
Royalties and licensing fees	571	370
	22,825	15,954

Included in due from customers on contract on the consolidated statement of financial position is $727 (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.

(expressed in thousands of Canadian dollars)

Customer deposits and deferred revenue of $1,201 (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 years ended September 30, 2018 and 2017 were as follows:

	2018		2017	
Customer	**$**	**%**	**$**	**%**
A	6,633	29	1,954	12
B	2,334	10	1,915	12
Others	13,858	61	12,085	76
	22,825	100	15,954	100

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

	2018		2017	
Customer	**$**	**%**	**$**	**%**
X	1,083	31	574	22
Y	405	12	551	21
Z	372	11	-	-
Others	1,662	46	1,492	57
	3,522	100	2,617	100

17 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 years ended September 30, 2018 and 2017 are shown below.

Details of expenses by nature	**2018 $**	**2017 $**
Cost of materials	8,862	7,663
Salaries, wages and employee expenses	5,918	4,843
Travel and promotional costs	2,399	1,304
Depreciation of plant and equipment	1,406	1,076
Professional services	1,017	1,065
Rent	526	433
Other expenses	895	441
Office and courier	275	199
Total expenses	21,298	17,024

18 Impairment of contract

The Company entered into an agreement with Sutro Biopharma Inc. ("Sutro") on May 23, 2014 to construct a commercial-scale powderREV® machine for use under a technology license with Sutro. The machine was custom designed and fabricated for dehydration of Sutro's specific cell free extract for protein synthesis. The Company recorded revenue from the contract in accordance with IAS 11, Construction Contracts and measured the stage of completion using the cost-to-cost method. After completing fabrication of the machine, and in part due to scope changes pertaining to the formulation of material intended for dehydration in the powderREV® machine, the vacuum microwave dehydration process was not able to maintain the target bioactivity levels in the finish dried material. The Company and Sutro jointly agreed to cease further development of the powderREV® machine that was fabricated for Sutro, and the Company has recorded an impairment of the balance in "Due from customers on contract" of $865 that related to the amount of revenue previously recognized on the project which has become uncollectible as it was payable on achievement of future progress milestones according to the contract.

(expressed in thousands of Canadian dollars)

19 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	September 30, 2018			September 30, 2017		
	EnWave Canada $	EnWave USA $	Total $	EnWave Canada $	EnWave USA $	Total $
Assets						
Trade receivables	940	2,582	3,522	1,823	794	2,617
Receivable from related parties	-	-	-	-	-	-
Inventory	1,717	1,156	2,873	2,433	540	2,973
Plant and equipment	966	3,486	4,452	1,225	1,450	2,675
Intangible assets	914	38	952	929	17	946
	4,537	7,262	11,799	6,410	2,801	9,211
Liabilities						
Trade and other payables	1,588	1,449	3,037	1,751	430	2,181
Amounts due to related parties	1	18	19	10	64	74
Customer deposits and deferred revenue	1,188	13	1,201	926	-	926
Other liability	445	-	445	41	-	41
	3,222	1,480	4,702	2,728	494	3,222

Year ended	September 30, 2018			
	EnWave Canada $	EnWave USA $	Elimination Adjustments $	Total $
Revenues – external customers	6,322	16,503	-	22,825
Revenues – other segments	3,003	-	(3,003)	-
Total revenues	9,325	16,503	(3,003)	22,825
Expenses	(13,414)	(12,810)	2,454	(23,770)
Net income (loss)	(4,089)	3,693	(549)	(945)

Year ended	September 30, 2017			
	EnWave Canada $	EnWave USA $	Elimination Adjustments $	Total $
Revenues – external customers	9,398	6,556	-	15,954
Revenues – other segments	573	1	(574)	-
Total revenues	9,971	6,557	(574)	15,954
Expenses	(13,092)	(6,343)	495	(18,940)
Net income (loss)	(3,121)	214	(79)	(2,986)

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 16(a) and account for approximately 28% of the consolidated revenues. Revenues for EnWave USA relate to product sales referred to in note 16(a) and account for approximately 72% of the consolidated revenues.