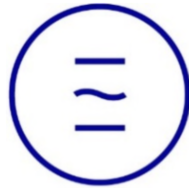

ENWAVE

CORPORATION

Consolidated Financial Statements

**Years ended September 30, 2019 and 2018**

(expressed in thousands of Canadian dollars)

# *Independent auditor's report*

To the Shareholders of EnWave Corporation

## *Our opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of EnWave Corporation and its subsidiaries (together, the Company) as at September 30, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

**What we have audited**
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at September 30, 2019 and 2018;
- the consolidated statements of loss for the years then ended;
- the consolidated statements of comprehensive loss for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

## *Basis for opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

**Independence**
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

*PricewaterhouseCoopers LLP*
*PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7*
*T: +1 604 806 7000, F: +1 604 806 7806*

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

## *Other information*

Management is responsible for the other information. The other information comprises the Management Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## *Responsibilities of management and those charged with governance for the consolidated financial statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## *Auditor's responsibilities for the audit of the consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is John Bunting.

**(signed) PricewaterhouseCoopers LLP**

Chartered Professional Accountants

Vancouver, British Columbia
December 10, 2019

# EnWave Corporation

## Consolidated Statements of Financial Position

**As at September 30, 2019 and 2018**

(expressed in thousands of Canadian dollars)

| | Note | 2019<br>$ | 2018<br>$ |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 4(a) | **18,665** | 9,101 |
| Restricted cash | 4(b) | **250** | 250 |
| Trade receivables | 6 | **10,329** | 3,522 |
| Due from customers on contract | 5 | **1,557** | 727 |
| Inventory | 8 | **5,986** | 2,873 |
| Prepaids and other receivables | 7 | **942** | 285 |
| Income taxes receivable | 18 | **98** | - |
| | | **37,827** | 16,758 |
| **Non-current assets** | | | |
| Plant and equipment | 10 | **4,831** | 4,452 |
| Intangible assets | 9 | **592** | 952 |
| | | **5,423** | 5,404 |
| **Total assets** | | **43,250** | 22,162 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 11 | **8,791** | 3,037 |
| Amounts due to related parties | 14(c) | **44** | 19 |
| Customer deposits and deferred revenue | 5 | **2,768** | 1,201 |
| Income taxes payable | 18 | **-** | 392 |
| Current portion of other liability | 12(b) | **108** | 98 |
| | | **11,711** | 4,747 |
| **Non-current liabilities** | | | |
| Deferred income tax liability | 18 | **348** | 146 |
| Long-term portion of other liability | 12(b) | **247** | 347 |
| | | **595** | 493 |
| **Total liabilities** | | **12,306** | 5,240 |
| **Equity** | | | |
| Attributable to shareholders of the parent | | | |
| Share capital | 13(b) | **79,063** | 63,391 |
| Warrants | 13(c) | **1,715** | 1,895 |
| Contributed surplus | | **8,035** | 7,582 |
| Foreign currency translation reserve | | **694** | 548 |
| Deficit | | **(58,563)** | (56,494) |
| **Total equity** | | **30,944** | 16,922 |
| **Total liabilities and equity** | | **43,250** | 22,162 |
| **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, 2019 and 2018**

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

| | Note | 2019<br>$ | 2018<br>$ |
|---|---|---|---|
| **Revenues** | 15 | **42,842** | 22,825 |
| **Direct costs** | | **(29,236)** | (13,915) |
| | | **13,606** | 8,910 |
| **Expenses** | | | |
| General and administration | | **4,329** | 2,439 |
| Sales and marketing | | **5,787** | 3,731 |
| Research and development | | **1,692** | 1,213 |
| Stock-based compensation | 13(d) | **1,821** | 545 |
| Restructuring charges | 17 | **612** | - |
| Amortization of intangible assets | 9 | **391** | 573 |
| Loss on disposal of assets | 10 | **259** | - |
| Impairment of contract | | **-** | 865 |
| Foreign exchange (gain) loss | | **(9)** | 11 |
| Finance income, net | | **(179)** | (60) |
| | | **14,703** | 9,317 |
| **Loss for the year before income taxes** | | **(1,097)** | (407) |
| Income tax expense | | | |
| Current | 18 | **691** | 392 |
| Deferred | 18 | **198** | 146 |
| **Net loss for the year** | | **(1,986)** | (945) |
| **Net (loss) income attributed to:** | | | |
| Shareholders of the parent company | | **(1,986)** | (1,295) |
| Non-controlling interest | 1 | **-** | 350 |
| | | **(1,986)** | (945) |
| **Loss per common share** | | | |
| Basic and diluted | | **(0.02)** | (0.01) |
| **Weighted average number of shares outstanding** | | | |
| Basic and diluted | | **105,437,869** | 99,509,869 |

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, 2019 and 2018**

(expressed in thousands of Canadian dollars)

| | Note | 2019<br>$ | 2018<br>$ |
|---|---|---|---|
| **Net loss for the year** | | **(1,986)** | (945) |
| **Other comprehensive loss** | | | |
| **Items that may be subsequently reclassified to profit or loss** | | | |
| Foreign exchange translation | | **146** | 199 |
| **Total comprehensive loss for the year** | | **(1,840)** | (746) |
| | | | |
| **Comprehensive (loss) income attributed to:** | | | |
| Shareholders of the parent company | | **(1,840)** | (1,178) |
| Non-controlling interest | 1 | **-** | 432 |
| **Total comprehensive loss for the year** | | **(1,840)** | (746) |

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, 2019 and 2018**

(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, 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 |
| Impact of new IFRS standard (note 3) | - | - | - | - | - | (83) | (83) | - | (83) |
| Net loss for the year | - | - | - | - | - | (1,986) | (1,986) | - | (1,986) |
| Effects of foreign currency translation | - | - | - | - | 146 | - | 146 | - | 146 |
| Shares issued with private placement | 5,302,227 | 9,177 | - | - | - | - | 9,177 | - | 9,177 |
| Shares issued on exercise of agent's warrants | 453,609 | 584 | (107) | - | - | - | 477 | - | 477 |
| Shares issued on exercise of warrants | 341,937 | 487 | (73) | - | - | - | 414 | - | 414 |
| Shares issued on exercise of options | 3,742,333 | 5,366 | - | (1,310) | - | - | 4,056 | - | 4,056 |
| Shares issued on vesting of restricted share rights | 70,000 | 58 | - | (58) | - | - | - | - | - |
| Restricted share rights | - | - | - | 315 | - | - | 315 | - | 315 |
| Stock-based compensation | - | - | - | 1,506 | - | - | 1,506 | - | 1,506 |
| **Balance – September 30, 2019** | 110,836,515 | 79,063 | 1,715 | 8,035 | 694 | (58,563) | 30,944 | - | 30,944 |

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, 2019 and 2018**

(expressed in thousands of Canadian dollars)

| | Note | 2019<br>$ | 2018<br>$ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net loss for the year | | **(1,986)** | (945) |
| Items not affecting cash | | | |
| Depreciation and amortization | | **2,022** | 1,978 |
| Stock-based compensation | 11(d) | **1,821** | 545 |
| Impairment of contract | | **-** | 865 |
| Loss on disposal of assets | 9 | **259** | - |
| Inventory write-off | 8 | **63** | - |
| Finance income | | **(179)** | (60) |
| Income tax expense | 18 | **889** | 538 |
| Foreign exchange (gain) loss | | **(9)** | 8 |
| | | **2,880** | 2,929 |
| Changes in non-cash working capital | | | |
| Trade receivables | | **(6,720)** | (822) |
| Prepaids and other receivables | | **(448)** | (98) |
| Inventory | | **(1,769)** | 340 |
| Trade and other payables | | **4,273** | 849 |
| Due to/from related parties | | **24** | (156) |
| Due from customers on contract and deferred revenue | | **541** | 1,048 |
| Net cash (used in) generated from operating activities before income taxes | | **(1,219)** | 4,090 |
| Incomes taxes paid | | **(1,194)** | - |
| Net cash (used in) generated from operating activities | | **(2,413)** | 4,090 |
| **Cash flows from investing activities** | | | |
| Acquisition of plant and equipment | | **(2,388)** | (3,055) |
| Proceeds from disposition of plant and equipment | | **145** | - |
| Acquisition of intangible assets | | **(31)** | (68) |
| Acquisition of non-controlling interest in NutraDried | 1 | **-** | (2,310) |
| Finance income received | | **212** | 76 |
| Net cash used in investing activities | | **(2,062)** | (5,357) |
| **Cash flows from financing activities** | | | |
| Proceeds from private placement | 13(b) | **10,087** | 10,006 |
| Share issue costs | 13(b) | **(910)** | (1,016) |
| Proceeds from exercise of stock options | 13(d) | **4,056** | 229 |
| Proceeds from exercise of warrants | 13(c) | **890** | 192 |
| Payment of other liability | 12(b) | **(98)** | (441) |
| Net cash generated from financing activities | | **14,025** | 8,970 |
| Cash flows generated during the year | | **9,550** | 7,703 |
| Effect of foreign exchange translation on cash | | **14** | 79 |
| **Increase in cash and cash equivalents** | | **9,564** | 7,782 |
| **Cash and cash equivalents - Beginning of the year** | | **9,101** | 1,319 |
| **Cash and cash equivalents - End of the year** | | **18,665** | 9,101 |
| **Non-cash transactions** | | | |
| Acquisition of plant and equipment through accounts payable | | **82** | 51 |
| Warrants issued for share issuance costs | | **-** | 191 |
| Acquisition of intangible assets through other liability | | **-** | 511 |

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

## 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 proprietary microwave-vacuum food and cannabis dehydration machines under a licensing-royalty business model.

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, United States of America. 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 10, 2019.

### 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 $955 (2018 - $247).

*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.

**New accounting standards adopted during the period**

***IFRS 15 – Revenue from contracts with customers***

Effective October 1, 2018, the Company adopted IFRS 15, *Revenue from Contracts with Customers (“IFRS 15”),* which replaces all previous revenue recognition standards including *International Accounting Standards 18, Revenue (“IAS 18”)* and *IAS 11, Construction Contracts (“IAS 11”),* and related interpretations.

IFRS 15 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. A five-step model is utilized to achieve the core principle: (1) identify the customer contract; (2) identify the contract’s performance obligation; (3) determine the transaction price; (4) allocate the transaction price to the performance obligation; and (5) recognize revenue when or as a performance obligation is satisfied. New disclosures are also required.

*Transition considerations*

The Company adopted IFRS 15 by applying the modified retrospective method, without restatement of comparatives figures. The Company applied the following practical expedients upon adoption of IFRS 15 on October 1, 2018:

- Completed contracts – the Company applied IFRS 15 retrospectively only to contracts that were not completed contracts as at October 1, 2018.
- Contract modifications – the Company did not apply IFRS 15 retrospectively to contract modifications that occurred before October 1, 2018.

The timing of revenue recognition from the sale of small-scale, standardized machine designs was affected by the change in accounting policy. Under IFRS 15, revenue from the sale of small-scale, standardized machine designs is recognized at a point in time, when the installation of the unit is complete. Previously, under IAS 18, revenue was recognized over time using the percentage of completion method for these contracts.

The classification of revenues and selling and marketing expenses from product sales was affected by the change in accounting standards. Under IFRS 15, discounts and certain promotional expenditures are recorded as a reduction of revenue. Previously, under IAS 18, these costs were classified as selling and marketing expenses.

The revised accounting policies had no other significant effect on revenue recognition in any of the other revenue sources.

The financial impact of adopting IFRS 15 on the opening consolidated statement of financial position is as follows:

| | **As at October 1, 2018** **$** |
|---|---|
| Inventory | 119 |
| Customer deposits and deferred revenue | 202 |
| Retained deficit | 83 |

The financial impact of adopting IFRS 15 on the consolidated statement of loss for the year ended September 30, 2019 is as follows:

| | **Amounts prior to adoption of IFRS 15** **$** | **Impact of adopting IFRS 15** **$** | **As reported on the consolidated financial statements** **$** |
|---|---|---|---|
| Revenues | 49,623 | (6,781) | 42,842 |
| Sales and marketing expenses | 12,568 | (6,781) | 5,787 |
| Net income (loss) | - | - | - |

The Company's revised revenue recognition accounting policy is described below:

*Customized equipment sales contracts*

The Company designs and builds customized dehydration equipment to meet customers' specific needs. The Company typically receives a deposit prior to starting work on an equipment contract and receives interim payments as work progresses. The Company recognizes a liability for advance payments in excess of revenue recognized and presents it as contract liability on the consolidated statement of financial position in customer deposits and deferred revenue. The advance payment typically is not considered a significant financing component because it is used to meet working capital demands that can be higher in the early stages of a contract.

The Company receives payments from customers based on a billing schedule, as established in the equipment purchase contracts. Amounts are billed as work progresses in accordance with the terms of the contract, either upon achievement of contractual milestones or at periodic intervals.

When an equipment purchase contract is for a customized machine design that is specific to a customer's equipment specification, the Company generally recognizes revenue over time because of continuous transfer of control to the customer. Because of control transferring over time, revenue is recognized based on the extent of progress towards completion of the performance obligation. The selection of the method to measure progress towards completion requires judgement and the Company typically uses the cost-to-cost measure of progress for contracts because it best depicts the transfer of assets to the customer which occurs as costs are incurred on contracts. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance

obligation. Revenues are recorded proportionately as costs are incurred. Costs to fulfil the performance obligation are recognized as cost of goods sold in the period they are incurred. Typically, the customized machine contracts of the Company do not have a duration of greater than 12 months, and the Company has applied the practical expedient under IFRS 15.121.

Management must make assumptions and estimates regarding the measurement of progress towards completion of the performance obligation over time. These assumptions and estimates relate to the complexity of the work being performed, achievement of technical specifications and milestone events, and the overall estimated cost, including materials, labour and overhead, to meet the performance obligations.

*Standardized equipment sales contracts*

The Company builds and installs small-scale dehydration equipment of standardized designs. The Company typically receives a deposit when the order for a machine is placed, a second deposit prior to the shipment of the machine, and the final payments become due upon installation of the machine. The Company will recognize a liability in advance of recognizing revenue for the deposits received prior to installation. Revenue from the sale of small-scale, standardized dehydration equipment is recognized at a point in time, upon completion of installation of the machine at the customer's facility.

*Sales of products*

The Company manufactures and sells food products in the consumer market. Revenue is measured at the fair value of the amount of consideration to which the Company expects to be entitled, including variable consideration, if any, to the extent that it is highly probable that a significant reversal will not occur. These criteria are generally met at the time the product is shipped and when control transfers to the customer. Revenue is measured based on the price specified in the sales contract and net of discounts. Discounts and certain promotional costs are recorded as a reduction of revenue. At the end of the period any unpaid discounts, trade expenses and promotional costs are recorded in accrued liabilities. At the end of the period any unpaid discounts, trade expenses and promotional costs are recorded in accrued liabilities. In many situations, the Company uses brokers to sell the products and will pay a sales commission. Sales commissions are recorded as sales and marketing expenses, and are not recorded net against revenue from the sale of products.

*Royalties and licensing fees*

The Company licenses its technology and charges sales-based or usage-based royalties to its licensees. Royalties and licensing fees are recognized at the time the subsequent sale or usage occurs, and when there is a binding right to receive such payments pursuant to the terms of the relevant agreement, which is the period the royalties are generated and earned.

**IFRS 9 - Financial Instruments**

Beginning on October 1, 2018, the Company adopted IFRS 9, *Financial Instruments* ("IFRS 9"), which replaces IAS 39, *Financial Instruments: Recognition and Measurement,* and related amendments to IFRS 7, *Financial Instruments: Disclosures,* and provides detailed guidance on classification and measurement of financial assets and liabilities, impairment of financial assets, and hedge accounting. There was no material impact to the Company's consolidated financial statements with regards to the changes in IFRS on the classification and measurement of financial assets and liabilities and hedge accounting.

The following table summarizes the classification of the Company's financial instruments under IAS 39 and IFRS 9:

| | IAS 39 Classification | IFRS 9 Classification |
|---|---|---|
| ***Financial assets*** | | |
| Cash and cash equivalents | Loans and receivables | Amortized cost |
| Restricted cash | Loans and receivables | Amortized cost |
| Trade receivables | Loans and receivables | Amortized cost |
| Due from customers on contract | Loans and receivables | Amortized cost |
| ***Financial liabilities*** | | |
| Trade and other payables | Other financial liabilities | Amortized cost |
| Amounts due to related parties | Other financial liabilities | Amortized cost |
| Customer deposits and deferred revenue | Other financial liabilities | Amortized cost |
| Other liability | Other financial liabilities | Amortized cost |

There has been no change in the carrying value of the financial instruments or to previously reported figures as a result of changes to the measurement categories in the table noted above.

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

*IFRS 16, Leases*

In January 2016, IFRS 16, *Leases,* was issued which sets out a new model for lease accounting. The standard replaces IAS 17, *Leases,* and is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted. The mandatory effective date of IFRS 16 is for years starting on or after January 1, 2019. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term greater than twelve months, unless the underlying asset's value is insignificant. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessors will continue to classify leases as operating or finance, with lessor accounting remaining substantially unchanged from the preceding guidance under IAS 17, *Leases*.

The standard may be adopted using a full retrospective or modified retrospective approach. The Company intends to adopts IFRS 16 on October 1, 2019 using the modified retrospective approach by recognizing the cumulative impact for initial adoption in the opening retained deficit (i.e. the difference between the right of use asset and the lease liability, net of deferred tax impact) and comparatives will not be restated. The majority of our property leases, which are currently treated as operating leases, are expected to be impacted by the new standard which will result in lower rent expense, higher depreciation expense and higher finance costs related to accretion and interest expense of the lease liability. IFRS 16 will also affect the consolidated statement of cash flows by decreasing operating cash flows and increasing financing cash flows by the amount of payments made on right-of-use-asset leases contracts. The new standard will not change the amount of cash transferred between the lessor and lessee, but will change the presentation of the operating and financing cash flows presented in the Company's consolidated statement of cash flows.

The Company has performed an assessment of the potential effect of IFRS 16 on its consolidated financial statements. The anticipated impact of IFRS 16 as a result of right-of-use assets created by the present value of future lease payments is between $1.4 million to $1.7 million. The anticipated recognition of a lease liability is between $1.5 million and $1.8 million. Both of these adjustments will be made to the consolidated statement of

financial position with the difference recognized in retained deficit. The Company intends to adopt IFRS 16 in the consolidated financial statements for the year commencing on October 1, 2019.

**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 contract is defined by IFRS 15, *Revenue from Contracts with Customers*. A contract is an agreement between two or more parties that creates enforceable rights and obligations. (IFRS 15.10)

When the Company creates or enhances an asset that the customer controls, there is an enforceable right to payment for performance completed and the customer receives and consumes the benefits from the Company's performance, 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*

The Company manufactures and sells food products in the consumer market. Revenue is measured at the fair value of the amount of consideration to which the Company expects to be entitled to, including variable consideration, if any, to the extent that it is highly probable that a significant reversal will not occur. These criteria

are generally met at the time the product is shipped when control transfers to the customer. Revenue is measured based on the price specified in the sales contract and net of discounts. Discounts and certain promotional costs are recorded as a reduction of revenue. At the end of the period any unpaid discounts, trade expenses and promotional costs are recorded in accrued liabilities. In many situations, the Company uses brokers to sell the products and will pay a sales commission. Sales commissions are recorded as sales and marketing expenses and are not recorded net against revenue from the sale of products.

*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.

*Standardized equipment sales contracts*

Revenue from the sale of small-scale, standardized dehydration equipment is recognized at a point in time, upon completion of installation of the machine at the customer's facility. The Company typically receives a deposit when the order for a machine is placed, a second deposit prior to the shipment of the machine, and the final payments become due upon installation of the machine. The Company will recognize a liability in advance of recognizing revenue for the deposits received prior to installation.

*Royalties and licensing fees*

Royalties and licensing fees are recognized at the time the subsequent sale or usage occurs, and when there is a binding right to receive such payments pursuant to the terms of the relevant agreement, which is the period the royalties are generated and earned.

**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 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, 2019, the Company had $18,665 (2018 - $9,101) in cash funds held in current accounts.

b) Restricted cash

As at September 30, 2019, the Company had a $250 (2018 - $250) restricted cash deposit held as collateral for the Company's foreign exchange contracts and company credit card.

## 5 Contract assets and contract liabilities

Due from customers on contract consists of unbilled amounts typically resulting from sales under equipment purchase contracts when the cost-to-cost method of revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer. The Company receives payments from customers based on a billing schedule, as established in the contracts. Accounts receivable are recognized when the right to consideration becomes unconditional.

Customer deposits and deferred revenue consists of advance payments and billings in excess of revenue recognized and deferred revenue. Contract liabilities are recognized as revenue when the Company performs under the contract.

Net contract assets (contract liabilities) consisted of the following:

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Due from customers on contract | 1,557 | 727 |
| Customer deposits and deferred revenues | (2,768) | (1,201) |
| | (1,211) | (474) |

During the year ended September 30, 2019, the Company recognized revenue from equipment sales and construction contracts of $1,201 that was included as deferred revenue at the beginning of the period.

## 6 Trade receivables

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

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Trade receivables | 10,387 | 3,522 |
| Less: Provision for expected credit losses | (58) | - |
| | 10,329 | 3,522 |

## 7 Prepaids and other receivables

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Prepaid expenses | 810 | 279 |
| Indirect tax receivable | 132 | 5 |
| Other receivables | - | 1 |
| | 942 | 285 |

## 8 Inventory

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Machine parts and work-in-progress | 2,198 | 1,718 |
| Food products | 3,562 | 942 |
| Packaging supplies | 226 | 213 |
| | 5,986 | 2,873 |

During the year ended September 30, 2019, the Company recorded $63 (2018 - $nil) of inventory write-downs related to food products.

## 9 Intangible assets

| | Acquired patents and technology licenses<br>$ | Computer software<br>$ | Total<br>$ |
|---|---|---|---|
| **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 |

| | Acquired patents and technology licenses $ | Computer software $ | Total $ |
|---|---|---|---|
| **Year ended September 30, 2019** | | | |
| Opening net book value | 896 | 56 | 952 |
| Additions | - | 31 | 31 |
| Amortization | (363) | (28) | (391) |
| Closing net book value | 533 | 59 | 592 |
| **At September 30, 2019** | | | |
| Cost | 9,584 | 99 | 9,683 |
| Accumulated amortization | (9,051) | (40) | (9,091) |
| Net book value | 533 | 59 | 592 |

As at September 30, 2019, the remaining amortization period for intangible assets ranges from six months to four years (2018 – 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.

## 10 Plant and equipment

| | Office plant and equipment $ | Manufacturing plant and equipment $ | Commercial equipment $ | Leasehold improvements $ | Total $ |
|---|---|---|---|---|---|
| **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 |

| | Office plant and equipment $ | Manufacturing plant and equipment $ | Commercial equipment $ | Leasehold improvements $ | Total $ |
|---|---|---|---|---|---|
| **Year ended September 30, 2019** | | | | | |
| Opening net book value | 140 | 3,841 | 267 | 204 | 4,452 |
| Additions | 249 | 1,611 | 96 | 513 | 2,469 |
| Disposals - cost | - | (573) | (1,113) | - | (1,686) |
| Disposals – accumulated depreciation | - | 282 | 1,000 | - | 1,282 |
| Depreciation | (76) | (1,403) | (171) | (126) | (1,776) |
| Currency translation adjustments | 1 | 84 | - | 5 | 90 |
| Closing net book value | 314 | 3,842 | 79 | 596 | 4,831 |
| **At September 30, 2019** | | | | | |
| Cost | 621 | 8,358 | 257 | 1,301 | 10,537 |
| Accumulated depreciation | (307) | (4,516) | (178) | (705) | (5,706) |
| Net book value | 314 | 3,842 | 79 | 596 | 4,831 |

As at September 30, 2019, $nil (2018 - $267) of commercial equipment was leased to a customer under an operating lease.

## 11 Trade and other payables

| | 2019 $ | 2018 $ |
|---|---|---|
| Trade payables | 5,051 | 1,432 |
| Accrued liabilities | 2,175 | 1,221 |
| Personnel related accruals | 1,301 | 218 |
| Provision for warranty | 264 | 153 |
| Indirect taxes payable | - | 13 |
| | 8,791 | 3,037 |

## 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:

| | 2019 $ | 2018 $ |
|---|---|---|
| Less than 1 year | 835 | 657 |
| Between 1 and 5 years | 2,004 | 1,337 |
| More than 5 years | - | - |
| Total | 2,839 | 1,994 |

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 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 on license agreements entered before 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 expired 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, 2019, the remaining discounted balance of the liability is $355 (September 30, 2018 - $445) and is payable on an undiscounted basis as follows:

| | **Undiscounted royalties payable USD $** | **Undiscounted royalties payable CAD $** |
|---|---|---|
| 2020 | 100 | 132 |
| 2021 | 100 | 132 |
| 2022 | 100 | 132 |
| 2023 | 4 | 5 |
| Total | 304 | 401 |

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

| | **Other liability 2019 $** | **Other liability 2018 $** |
|---|---|---|
| Balance – October 1 | 445 | 41 |
| Payments made | (98) | (441) |
| Non-cash changes | | |
| Acquisitions | - | 511 |
| Interest expense | 33 | 29 |
| Foreign exchange | 11 | 22 |
| Change in trade and other payables | (36) | 283 |
| Balance – September 30 | 355 | 445 |

## 13 Share capital

a) Authorized: unlimited number of voting common shares without par value. Issued and outstanding: 110,836,515

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

b) Issued and fully paid:

| | Number | Share capital Value $ |
|---|---|---|
| Balance – October 1, 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 | - |
| Shares issued on exercise of stock options | 247,600 | 303 |
| Shares issued on vesting of restricted share rights | 80,000 | 85 |
| Balance – September 30, 2018 | 100,926,409 | 63,391 |
| Shares issued with Private Placement (ii) | 5,302,227 | 10,087 |
| Share issue costs (iii) | - | (910) |
| Shares issued on exercise of Underwriter's Warrants (ii) | 453,609 | 584 |
| Shares issued on exercise of Investor's Warrants | 341,937 | 487 |
| Shares issued on exercise of stock options | 3,742,333 | 5,366 |
| Shares issued on restricted share rights | 70,000 | 58 |
| Balance – September 30, 2019 | 110,836,515 | 79,063 |

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. For the year ended September 30, 2018, 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 were $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").

iii) On April 26, 2019, the Company completed a share purchase agreement with Aurora Cannabis Inc. ("Aurora"). Aurora purchased 5,302,227 common shares of the Company for consideration of 840,576 common shares of Aurora (the "Aurora Financing"). Immediately upon closing of the transaction, the Company disposed of the 840,576 common shares of Aurora for gross proceeds of $10,087. The Company incurred share issue costs of $910 in connection with the Aurora Financing.

c) Warrants

The continuity of share purchase warrants during the years ended September 30, 2019 and 2018 is as follows:

| | Number of warrants | Weighted average exercise price $ | Fair value at grant date $ |
|---|---|---|---|
| Balance September 30, 2017 | 3,350,000 | 1.17 | 0.25 |
| Issued: | | | |
| Investor 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 |
| Issued: | | | |
| Investor's Warrants (ii) | 226,801 | 1.50 | 0.27 |
| Exercised: | | | |
| Underwriter's Warrants (iii) | (453,609) | 1.05 | 0.36 |
| Investor's Warrants (iv) | (341,937) | 1.21 | 0.24 |
| Balance – September 30, 2019 | 7,953,731 | 1.39 | 0.26 |

i) As part of the October 2015 private placement, the Company issued 225,000 "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.

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, 2019, 453,609 Underwriter's Warrants were exercised, for 453,609 common shares and 226,801 warrants, exercisable into one common share of the Company at an exercise price of $1.50 per share expiring on November 15, 2022.

iv) During the year ended September 30, 2019, 331,750 warrants were exercised at a price of $1.20 for 331,750 common shares of the Company, and 10,187 warrants were exercised at a price of $1.50 for 10,187 common shares of the Company.

The following table summarizes the warrants that remain outstanding as at September 30, 2019:

| Exercise price $ | Number of warrants | Expiry date |
|---|---|---|
| 1.05 | 60,955 | November 15, 2019 |
| 1.20 | 2,905,750 | October 22, 2020 |
| 1.50 | 4,987,026 | November 15, 2022 |
| | 7,953,731 | |

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.

The changes in options for the years ended September 30, 2019 and 2018 were as follows:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price $ | Number of options | Weighted average exercise price $ |
| Outstanding, beginning of the year | 7,291,001 | 1.12 | 6,611,000 | 1.14 |
| Options granted | 2,870,000 | 1.79 | 1,952,600 | 1.19 |
| Options exercised | (3,742,333) | 1.08 | (247,600) | 0.92 |
| Options expired or forfeited | (466,668) | 1.40 | (1,024,999) | 1.43 |
| **Outstanding, end of the year** | **5,952,000** | **1.45** | **7,291,001** | **1.12** |
| **Exercisable, end of the year** | **2,391,131** | **1.15** | **5,381,735** | **1.10** |

The weighted average fair value of options granted during the year ended September 30, 2019 was $0.60 per option (2018 - $0.41).

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, 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| Risk-free interest rate | 1.82% | 2.20% |
| Expected life | 3.64 years | 3.64 years |
| Estimated volatility | 42% | 43% |
| Forfeiture rate | 3.15% | 1.27% |
| Dividend rate | 0.00% | 0.00% |

Stock options outstanding as at September 30, 2019 have the following expiry dates and exercise prices:

| Year of expiry | Exercise price per share $ | Number of options |
|---|---|---|
| 2020 | 0.80 | 37,000 |
| 2021 | 0.87 - 1.28 | 445,000 |
| 2022 | 1.00 - 1.09 | 822,400 |
| 2023 | 1.07 - 1.45 | 3,037,600 |
| 2024 | 1.37 - 2.19 | 1,610,000 |
| | | 5,952,000 |

During the year ended September 30, 2019, the Company recorded stock-based compensation expense of $1,821 (2018 - $545), which includes compensation expense for stock options and for RSRs. The fair value of each option and RSR is accounted for in the consolidated statement of loss over the vesting period, and the related credit is included in contributed surplus.

e) Restricted share rights

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

The changes in RSRs for the years ended September 30, 2019 and 2018 were as follows:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Number of RSRs | Weighted average grant date fair value $ | Number of RSRs | Weighted average grant date fair value $ |
| Outstanding, beginning of the year | 710,000 | 1.21 | 380,000 | 1.02 |
| RSRs granted | 225,000 | 1.41 | 410,000 | 1.36 |
| RSRs vested | (70,000) | 0.83 | (80,000) | 1.06 |
| RSRs forfeited | (90,000) | 1.29 | - | - |
| **Outstanding, end of the year** | **775,000** | **1.29** | **710,000** | **1.21** |

During the year ended September 30, 2019, stock-based compensation expense of $315 (2018 - $150) was recorded for the RSRs vested during the period. RSRs vest three years from the award date, in accordance with the RSR Plan.

## 14 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, 2019 and 2018 comprises the following expenses:

| | 2019 $ | 2018 $ |
|---|---|---|
| Salaries, bonuses, severance and short-term employee benefits | 1,169 | 1,119 |
| Stock-based compensation | 733 | 225 |
| | 1,902 | 1,344 |

b) Purchases from related parties

The Company had purchases from related parties for the years ended September 30, 2019 and 2018 in the normal course of business as shown in the table below:

| | 2019<br>$ | 2018<br>$ |
|---|---:|---:|
| Directors' fees | 136 | 90 |
| Stock-based compensation | 287 | 122 |
| Facilities rent and other | - | 7 |
| | 423 | 219 |

c) Balances payable to related parties:

As at September 30, 2019, the Company had $44 (2018 - $19) due to related parties for expense reimbursements made on behalf of the Company. The amounts are payable on demand in the normal course of business.

## 15 Revenues

a) Revenue breakdown for the years ended September 30, 2019 and 2018 is as follows:

| | 2019<br>$ | 2018<br>$ |
|---|---:|---:|
| Product sales | 29,994 | 16,474 |
| Equipment sales and construction contracts | 11,412 | 4,900 |
| Royalties and licensing fees | 735 | 571 |
| Equipment rental fees, testing fees and other | 701 | 880 |
| | 42,842 | 22,825 |

Included in due from customers on contract on the consolidated statement of financial position is $1,557 (2018 - $727) 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.

Individual customers representing over 10% of the total revenue during the years ended September 30, 2019 and 2018 were as follows:

| | 2019 | | 2018 | |
|---|---:|---:|---:|---:|
| **Customer** | **$** | **%** | **$** | **%** |
| A | 18,328 | 43 | 6,633 | 29 |
| B | - | - | 2,334 | 10 |
| Others | 24,514 | 57 | 13,858 | 61 |
| | 42,842 | 100 | 22,825 | 100 |

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

| | 2019 | | 2018 | |
|---|---|---|---|---|
| **Customer** | **$** | **%** | **$** | **%** |
| X | 7,476 | 72 | 1,083 | 31 |
| Y | - | - | 405 | 12 |
| Z | - | - | 372 | 11 |
| Others | 2,853 | 28 | 1,662 | 46 |
| | 10,329 | 100 | 3,522 | 100 |

## 16 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, 2019 and 2018 are shown below.

| **Details of expenses by nature** | **2019** **$** | **2018** **$** |
|---|---|---|
| Cost of materials | 21,758 | 8,862 |
| Salaries, wages and employee expenses | 9,247 | 5,918 |
| Travel and promotional costs | 3,535 | 2,399 |
| Commissions on product sales | 1,472 | 717 |
| Other expenses | 506 | 178 |
| Professional services | 1,834 | 1,017 |
| Depreciation of plant and equipment | 1,629 | 1,406 |
| Rent | 643 | 526 |
| Office and courier | 362 | 275 |
| Bad debt | 58 | - |
| Total expenses | 41,044 | 21,298 |

## 17 Restructuring charges

On May 1, 2019, the Company restructured the sales and marketing function of NutraDried and incurred a contract termination expense of $612. Following the restructuring, the sales and marketing function is managed internally by the Company whereas previously it was under contract with an external agency.

## 18 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:

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Net income (loss before taxes) | (1,096) | (447) |
| Combined statutory tax rate | 27.00% | 26.75% |
| Income tax recovery at the statutory tax rate | (296) | (120) |
| Permanent differences | 508 | 246 |
| Effect of different statutory rates | (233) | (103) |
| Effect of unrecognized deferred tax assets | 910 | 515 |
| Income tax expense | 889 | 538 |

The Company's income tax is allocated as follows:

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Current tax expense | 691 | 392 |
| Deferred tax expense | 198 | 146 |
| Income tax expense | 889 | 538 |

The statutory tax rate increased from 26.75% to 27.00% 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** | **2018**<br>**$** | **Charged to Earnings**<br>**$** | **Charged to Other Comprehensive Income**<br>**$** | **2019**<br>**$** |
|---|---|---|---|---|
| Plant and equipment | (147) | (238) | (4) | (389) |
| Section 267 interest | - | 40 | - | 40 |
| **Total deferred tax liabilities** | **(147)** | **(198)** | **(4)** | **(349)** |

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:

| | 2019 $ | 2018 $ |
|---|---|---|
| Non-capital losses | 23,896 | 21,625 |
| Net operating losses | - | - |
| Net capital losses | 3,426 | 3,399 |
| Scientific research and experimental development expenses | 7,838 | 7,430 |
| Investment tax credits | 2,759 | 2,609 |
| Plant and equipment and intangible assets | 9,246 | 8,218 |
| Other | 1,117 | 404 |
| Total unrecognized deferred tax assets | 48,282 | 43,685 |

The Company has non-capital losses for Canadian income tax purposes of approximately $23,896 (2018 - $21,625) that are available to reduce future year's taxable income. These losses will expire from 2026 to 2039.

## 19 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 | Amortized cost |
| Restricted cash | Amortized cost |
| Trade receivables | Amortized cost |
| Due from customers on contract | Amortized cost |
| Trade and other payables | Amortized cost |
| Amounts due to related parties | Amortized cost |
| Customer deposits and deferred revenue | Amortized cost |
| Income tax payable | Amortized cost |
| Other liability | Amortized cost |

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, 2019 was $355 (2018 - $445) 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 does not hold any equity instruments that are measured at fair value or amortized costs during the years ended September 30, 2019, and 2018.

**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 a provision for credit losses relating to specific losses estimated on individual exposures. As at September 30, 2019, the Company has recorded $58 (2018 - $nil) provision for expected credit losses.

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 September 30, 2019:

| | **Neither past due nor impaired** | **Past due but not impaired** | | |
|---|---|---|---|---|
| | **0 – 30** | **31 – 90** | **91 – 365** | **Over 365** |
| Trade receivables | 9,380 | 194 | 755 | - |
| Due from customers on contract | 1,557 | - | - | - |
| Indirect taxes receivable | 132 | - | - | - |
| | 11,069 | 194 | 755 | - |

**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, 2019. 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, 2019, the Company had cash and cash equivalents of $18,665 to settle current liabilities of $11,711. On November 15, 2017, the Company completed an equity financing for total gross proceeds of $10,006 (note 13). On April 24, 2019, the Company completed a private share placement with Aurora with total gross proceeds of $10,087 (note 13).

a) Financial assets maturity table:

| | **0 – 30** | **31 – 90** | **91 – 365** | **Over 365** |
|---|---|---|---|---|
| Cash and cash equivalents and restricted cash | 18,665 | - | 250 | - |
| Trade receivables | 10,227 | 44 | 58 | - |
| Due from customers on contract | - | 636 | 921 | - |
| Income taxes receivable | 98 | - | - | - |
| Indirect taxes receivable | 132 | - | - | - |
| | 29,122 | 680 | 1,229 | - |

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

| | 0 – 30 | 31 – 90 | 91 – 365 | Over 365 |
|---|---|---|---|---|
| Trade and other payables | 8,741 | 42 | 8 | - |
| Amounts due to related parties | 44 | - | - | - |
| | 8,785 | 42 | 8 | - |

**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, 2019 ranged from 1.85% to 2.30% (2018 - 0.60% to 2.20%). A 1% change in interest rates would affect the results of operations by approximately $106 (2018 - $51).

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.

A significant change in the currency exchange rate of the Canadian dollar relative to the US dollar could have an effect on the Company's results of operations. As at September 30, 2019, 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, 2019 and 2018, 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 loss for the years ended September 30, 2019 and 2018 as follows:

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **Currency** | | |
| US dollar | 146 | 810 |

**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.

## 20 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, 2019 | | | September 30, 2018 | | |
|---|---|---|---|---|---|---|
| | EnWave Canada<br>$ | EnWave USA<br>$ | Total<br>$ | EnWave Canada<br>$ | EnWave USA<br>$ | Total<br>$ |
| **Assets** | | | | | | |
| Trade receivables | 1,356 | 8,973 | 10,329 | 940 | 2,582 | 3,522 |
| Inventory | 2,198 | 3,788 | 5,986 | 1,717 | 1,156 | 2,873 |
| Plant and equipment | 1,092 | 3,739 | 4,831 | 966 | 3,486 | 4,452 |
| Intangible assets | 560 | 32 | 592 | 914 | 38 | 952 |
| | 5,206 | 16,532 | 21,738 | 4,537 | 7,262 | 11,799 |
| **Liabilities** | | | | | | |
| Trade and other payables | 2,312 | 6,479 | 8,791 | 1,588 | 1,449 | 3,037 |
| Amounts due to related parties | - | 44 | 44 | 1 | 18 | 19 |
| Customer deposits and deferred revenue | 2,768 | - | 2,768 | 1,188 | 13 | 1,201 |
| Other liability | 355 | - | 355 | 445 | - | 445 |
| | 5,435 | 6,523 | 11,958 | 3,222 | 1,480 | 4,702 |

| **Year ended** | **September 30, 2019** | | | |
|---|---|---|---|---|
| | **EnWave Canada $** | **EnWave USA $** | **Elimination Adjustments $** | **Total $** |
| Revenues – external customers | 12,848 | 29,994 | - | 42,842 |
| Revenues – other segments | 2,457 | - | (2,457) | - |
| Total revenues | 15,305 | 29,994 | (2,457) | 42,842 |
| Expenses | (20,258) | (26,995) | 2,425 | (44,828) |
| Net (loss) income | (4,953) | 2,999 | (32) | (1,986) |

| **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 (loss) income | (4,089) | 3,693 | (549) | (945) |

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 15 and account for approximately 30% of the consolidated revenues. Revenues for EnWave USA relate to product sales referred to in note 15 and account for approximately 70% of the consolidated revenues.