



Financial Statements

Years ended:

September 30, 2011 and 2010

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December 21, 2011

Independent Auditor's Report

To the Shareholders of EnWave Corporation

We have audited the accompanying financial statements of EnWave Corporation, which comprise the balance sheets as at September 30, 2011 and September 30, 2010 and the statement of operations, comprehensive loss and deficit for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of EnWave Corporation as at September 30, 2011 and September 30, 2010 and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed "PricewaterhouseCoopers LLP"

Chartered Accountants

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

EnWave Corporation

Notes to Financial Statements

September 30, 2011 and 2010

(Expressed in Canadian dollars)

EnWave Corporation

BALANCE SHEETS

As at September 30

(Expressed in Canadian Dollars)

	2011	2010
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	11,640,701	5,206,300
Restricted cash [Note 2]	28,749	28,749
Tax receivable	227,402	121,074
Trade receivables	59,134	38,732
Prepaid expenses, deposits and other receivables	157,595	73,772
Inventories	636,809	381,498
	12,750,390	5,850,125
Equipment [Note 4]	543,171	569,942
Intangible assets [Note 5]	7,019,454	-
	20,313,015	6,420,067
LIABILITIES		
Current		
Accounts payable and accrued liabilities	263,054	187,380
Due to related parties [Note 9]	136,875	160,417
Deferred revenue	26,861	29,861
	426,790	377,658
SHAREHOLDERS' EQUITY		
Share capital [Note 6]	35,997,244	18,073,331
Contributed surplus	3,786,653	3,029,252
Deficit	(19,897,672)	(15,060,174)
	19,886,225	6,042,409
	20,313,015	6,420,067

Nature of operations [Note 1]

Commitments [Note 8]

Approved by the Directors:

"John McNicol"

Director

"Gary Sandberg"

Director

See accompanying notes

EnWave Corporation

Notes to Financial Statements

September 30, 2011 and 2010

(Expressed in Canadian dollars)

EnWave Corporation STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT For the years ended September 30

(Expressed in Canadian Dollars)

	2011	2010
	\$	\$
Revenue:		
Revenues	217,023	131,048
Cost of sales	-	(10,625)
	217,023	120,423
Expenses:		
General and administrative	1,037,000	902,228
Sales and marketing	279,906	162,761
Research and development	2,510,133	1,728,553
Patent amortization	623,634	-
Stock-based compensation [Note 6(d)]	737,247	583,836
	5,187,920	3,377,378
Operating income (loss)	(4,970,897)	(3,256,955)
Other income		
Interest income	133,399	29,082
Loss and comprehensive loss for the year	(4,837,498)	(3,227,873)
Deficit, beginning of the year	(15,060,174)	(11,832,301)
Deficit, end of the year	(19,897,672)	(15,060,174)
Loss per share (basic and diluted)	(0.07)	(0.06)
Weighted average number of shares outstanding		
- basic and diluted	66,634,575	53,384,064

See accompanying notes

EnWave Corporation
STATEMENTS OF CASH FLOWS
For the years ended September 30
(Expressed in Canadian Dollars)

	2011	2010
	\$	\$
Operating activities		
Loss and comprehensive loss for the year	(4,837,498)	(3,227,873)
Items not involving cash:		
Amortization of equipment	131,497	88,811
Amortization of intangible assets	623,634	-
Gain on disposal of equipment	-	(468)
Stock-based compensation expense [Note 6(d)]	737,247	583,836
	(3,345,120)	(2,555,694)
Changes in non-cash operating working capital:		
Increase in tax receivable	(106,328)	(106,724)
Increase in trade receivables	(20,737)	(32,255)
Decrease (increase) in prepaid expenses, deposits and other receivables	(83,489)	91
Increase in inventories	(255,312)	(332,359)
Increase (decrease) in accounts payable and accrued liabilities	51,646	(15,861)
Increase (decrease) in amounts due to related parties	(23,542)	110,900
Increase (decrease) in deferred revenue	(3,000)	13,973
	(3,785,882)	(2,917,929)
Financing activities		
Proceeds of private placement	12,070,800	3,499,999
Share issue costs	(963,842)	(327,751)
Proceeds on exercise of warrants	2,493,121	3,369,794
Proceeds on exercise of stock options [Note 6(d)]	939,550	176,800
	14,539,629	6,718,842
Investing activities		
Acquisition of intangible assets for cash [Note 5]	(4,238,651)	-
Purchase of equipment	(80,695)	(380,072)
	(4,319,346)	(380,072)
Net (decrease) increase in cash and cash equivalents	6,434,401	3,420,841
Cash and cash equivalents, beginning of the year	5,206,300	1,785,459
Cash and cash equivalents, end of the year	11,640,701	5,206,300
Supplementary Information:		
Interest received in cash	64,126	-
Non-cash transactions		
Purchase of equipment and inventory incurred through accounts payable	31,118	27,870

See accompanying notes

EnWave Corporation

Notes to Financial Statements

September 30, 2011 and 2010

(Expressed in Canadian dollars)

1. Nature of operations

EnWave Corporation was incorporated under the Canada Business Corporations Act on July 14, 1999. The Company is a developer of Radiant Energy Vacuum “*nutraREV*®”, “*bioREV*®”, “*freezeREV*™”, “*powderREV*™” and “*quantaREV*™” drying technologies used to create high quality dehydrated food and health products.

The Company is in its early stages of commercialization and has not yet realized profitable operations. It has relied on non-operational sources of financing to fund operations and as at September 30, 2011, has a working capital of \$12,323,600 and accumulated deficit of approximately \$20 million. The Company’s ability to achieve its objectives, meet its ongoing obligations and to recover its investments in patents and other assets will depend on management’s ability to successfully execute its business plan, achieve profitable operations and obtain additional financing, if or when required. There is no assurance that these initiatives will be successful.

2. Significant accounting policies

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include unrestricted cash and all highly liquid financial instruments purchased with an original maturity of three months or less from the date of acquisition. The carrying value of the instruments, which is recorded at cost plus accrued interest, approximates fair value.

Restricted cash

Restricted cash represents cash that has been pledged as collateral for a Company credit card.

Inventory

Inventory comprises of parts and finished goods, including prototypes and testing equipment. The Company classifies these items as inventory as they are all available for resale. Inventory is valued at the lower of cost, determined using the first-in, first-out basis, and net realizable value.

Long-lived assets impairment

Long-lived assets are reviewed for impairment when changes in circumstances suggest their carrying value has become impaired. Management considers assets to be impaired if the carrying value exceeds the estimated undiscounted future projected cash flows from the use of the asset and its eventual disposition. If impairment is deemed to exist, the assets will be written down to fair value. Fair value is generally determined using a discounted cash flow analysis.

EnWave Corporation

Notes to Financial Statements

September 30, 2011 and 2010

(Expressed in Canadian dollars)

2. Significant accounting policies (cont'd.)

Equipment

Equipment is stated at cost less recognized investment tax credits. Amortization of equipment is provided using the declining-balance method at the following annual rates:

Computer equipment	30%
Computer software	30%
Furniture, fixtures and tools	20%
Vehicles	30%
Lab and manufacturing equipment	20%
Leasehold improvements	Over the term of the lease

Patents

Acquired patents are recorded at cost and amortized on a straight-line basis over their estimated economic useful lives of 5 to 10 years. The Company keeps the estimation of useful lives under review. Costs incurred for internally-generated patents or patent applications are expensed.

The Company evaluates the recoverability of patents based on the expected utilization of the underlying technologies.

Revenue recognition

Revenues from product sales are recognized when goods are shipped and title and the benefits and risks of ownership of the product are transferred to the customer. Service revenues are recognized when performance of service is complete. For both of these types of arrangements, revenue is not recognized until the selling price is fixed or determinable, and collection is reasonably assured. Cash received in advance of these revenue recognition criteria is recorded as deferred revenue.

Revenues from testing arrangements are recognized on a straight-line basis over the term of the agreement.

Commission revenue is recognized when invoiced and there is an irrevocable entitlement.

Government assistance and Investment tax credits

The Company applies for financial assistance under available government incentive programs. The Company recognizes government grants and investment tax credits when there is reasonable assurance that they will be realized.

Government grants related to capital expenditures is recorded as a reduction of the cost of such assets. Grants relating to current expenses are credited to income in the year the qualifying expenditures are made.

Investment tax credits are applied against research and development expenses or the cost of equipment depending on whether the investment tax credit was on account of current expenditures or capital expenditures.

EnWave Corporation

Notes to Financial Statements

September 30, 2011 and 2010

(Expressed in Canadian dollars)

2. Significant accounting policies (cont'd.)

Research and development expenditures

Research costs are expensed as incurred. Development costs are expensed as incurred unless they meet the specific criteria for capitalization.

Share issue costs

Direct costs associated with the issuance of capital stock or warrants are deducted from the related proceeds at the time of the issue.

Stock-based compensation

The company uses the fair value method of accounting for the cost of stock-based compensation granted to employees, directors, and others. The fair value of stock-based compensation awards is determined at the time of grant using the Black-Scholes option pricing model.

Income taxes

Income taxes are accounted for using the asset and liability method. Future taxes are recognized for the tax consequences of "temporary differences" by applying enacted or substantively enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. The effect on future taxes of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. Future tax benefits of temporary differences are recognized to the extent that realization of such benefits is more likely than not.

Earnings (loss) per share

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share amounts are calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate.

Financial instruments

The Company classifies fair values of financial instruments within a three-level hierarchy that prioritizes the inputs to fair value measurement and reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. As at September 30, 2011, the Company's financial instruments which are measured at fair value on a recurring basis were cash and cash equivalents. These financial instruments have been classified as Level 2 financial instruments.

EnWave Corporation

Notes to Financial Statements

September 30, 2011 and 2010

(Expressed in Canadian dollars)

2. Significant accounting policies (cont'd.)

Financial instruments (cont'd.)

The Company has made the following classifications for its financial instruments:

- Cash and cash equivalents are classified as "Loans and receivables" and are measured at amortized cost;
- Receivables are classified as "Loans and receivables" and are recorded at amortized cost. Subsequent measurement of trade receivables is at amortized cost, less allowance for doubtful accounts; and
- Accounts payable and accrued liabilities and amounts due to related parties are classified as "Other financial liabilities" and are measured at amortized cost.

3. New accounting policies and future accounting pronouncements

International Financial Reporting Standards (IFRS)

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly accountable companies to use IFRS, replacing Canadian GAAP. This date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date for the Company is October 1, 2011, and will require the restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2011. The Company has analyzed, and it's in the process of identifying and assessing the financial reporting impact of the transition to IFRS.

EnWave Corporation

Notes to Financial Statements

September 30, 2011 and 2010

(Expressed in Canadian dollars)

4. Equipment

	Cost	Accumulated amortization	Net book value
	\$	\$	\$
September 30, 2011			
Computer equipment and software	84,722	41,233	43,489
Manufacturing and office equipment	901,235	401,553	499,682
	985,571	442,786	543,171
September 30, 2010			
Computer equipment and software	71,068	25,521	45,547
Manufacturing and office equipment	810,163	285,768	524,395
	881,231	311,289	569,942

5. Intangible assets

	2011			2010
	Cost (\$)	Accumulated Amortization (\$)	Net Book Value (\$)	Net Book Value (\$)
Acquired Patents	7,643,088	623,634	7,019,454	-
	7,643,088	623,634	7,019,454	-

On March 31, 2011, the Company entered into a License Termination and Patent Assignment Agreement (the "UBC Patent Agreement") to acquire all patents and know-how previously licensed from The University of British Columbia ("UBC") for Radiant Energy Vacuum ("REV") dehydration technology (the "Technology"). The cost of acquisition was \$6,185,589 in a combination of cash and common shares of the Company. On December 6, 2010, the Company entered into an Asset Purchase Agreement (the "iNAP Agreement") to acquire the U.S. patents and know-how for the MIVAP™ vacuum microwave dehydration technology ("MIVAP™") from iNAP GmbH ("iNAP"), a private German company. The cost of acquisition was \$1,457,500 in cash and common shares.

EnWave Corporation

Notes to Financial Statements

September 30, 2011 and 2010

(Expressed in Canadian dollars)

6. Share capital

(a) Authorized:

Unlimited number of common shares without par value. Issued and outstanding:
71,563,590

Unlimited number of preferred shares, issuable in series. Issued and outstanding: Nil.

(b) Issued and fully paid:

	Share capital		Contributed surplus
	Amount	Value	surplus
	#	\$	\$
Balance, September 30, 2009	46,500,331	11,343,483	2,456,424
Shares issued on exercise of options <i>[Note 6b(ii)]</i>	663,333	278,687	(101,887)
Shares issued on exercise of warrants <i>[Note 6b(iii)]</i>	7,406,903	3,934,492	(564,698)
Shares and warrants issued for cash at \$0.90 per unit <i>[Note 6b(i)]</i>	3,888,888	3,045,272	454,727
Agents' units <i>[Note 6b(i)]</i>	35,000	-	8,947
Agents' warrants <i>[Note 6c(i)]</i>	-	(191,904)	191,903
Share issue costs	-	(336,699)	-
Vesting of stock options <i>[Note 6d]</i>	-	-	583,836
Balance, September 30, 2010	58,494,455	18,073,331	3,029,252
Shares and warrants issued for cash at \$1.80 per unit <i>[Note 6b(v)]</i>	6,706,000	10,797,101	1,273,699
Agents' warrants <i>[Note 6b(v)]</i>	-	(364,473)	364,473
Finder's fee shares <i>[Note 6b(v)]</i>	30,175	54,315	-
Share issue costs <i>[Note 6b(v)]</i>	-	(54,315)	-
Shares issued on exercise of options <i>[Note 6d]</i>	2,338,500	1,945,359	(1,005,809)
Shares issued on exercise of warrants <i>[Note 6c]</i>	1,897,424	2,625,769	(443,730)
Shares issued on exercise of agents' warrants <i>[Note 6c]</i>	340,786	479,561	(168,479)
Shares issued for Binder iNAP acquisition <i>[Note 6b(iv)& Note 5b]</i>	550,000	907,500	-
Shares issued for UBC patents acquisition <i>[Note 6b(vi)& Note 5a]</i>	1,206,250	2,496,938	-
Share issue costs	-	(963,842)	-
Vesting of stock options <i>[Note 6d]</i>	-	-	737,247
Balance, September 30, 2011	71,563,590	35,997,244	3,786,653

EnWave Corporation

Notes to Financial Statements

September 30, 2011 and 2010

(Expressed in Canadian dollars)

6. Share capital (cont'd.)

(b) Issued and fully paid (cont'd)

- (i) On January 19, 2010, the Company closed a brokered private placement of 3,888,888 units at a price of \$0.90 per unit, raising \$3,499,999 in cash. Each unit consisted of one common share and half of one common share purchase warrant. Each whole warrant entitled its holder to purchase one common share of the Company at an exercise price of \$1.15 per share until January 19, 2011.

The fair value assigned to the warrants was \$454,727. The fair value of the warrants was calculated using the *Black-Scholes Option Pricing Model* with the following assumptions:

Risk-free interest rate	1.16%
Volatility	68.19%
Expected life	0.83 years
Dividend yield	0%

In connection with the private placement, the Company paid finder's fees in cash of \$245,000, issued 35,000 agents' units with identical terms as those sold to investors, and issued 388,888 agents' warrants with an exercise price of \$0.90 per agent warrant until January 19, 2012. The fair value assigned to the 388,888 agents' warrants was calculated at \$191,904 using the *Black-Scholes Option Pricing Model* with the assumptions shown in the table below and has been credited to contributed surplus.

Risk-free interest rate	1.26%
Volatility	80.8%
Expected life	1.75 years
Dividend yield	0%

In addition, the Company reimbursed the agent for \$31,000 in expenses, and incurred \$51,059 of other share issuance costs.

- (ii) During year ended September 30, 2010, a total of 663,333 options were exercised for total proceeds of \$176,800. A fair value of \$101,887 was transferred to share capital from contributed surplus in connection with those exercises.
- (iii) During year ended September 30, 2010, a total of 7,406,903 warrants were exercised for total proceeds of \$3,369,794. A fair value of \$564,698 was transferred to share capital from contributed surplus in connection with those exercises.
- (iv) On December 6, 2010, the Company issued 550,000 common shares to iNAP to acquire the MIVAP™ under the terms of the Asset Purchase Agreement (Note 5). The fair value of the common shares was \$907,500.
- (v) On February 9, 2011, the Company closed a private placement issuing 6,706,000 units at a price of \$1.80 per unit for aggregate gross proceeds of \$12,070,800. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to subscribe for one additional common share at an exercise price of \$2.25 per share until August 9, 2012.

EnWave Corporation

Notes to Financial Statements

September 30, 2011 and 2010

(Expressed in Canadian dollars)

6. Share capital (cont'd.)

(b) Issued and fully paid (cont'd)

The fair value assigned to the 3,353,000 share purchase warrants was \$1,273,699 and has been credited to contributed surplus, calculated using the *Black-Scholes Option Pricing Model* with the following assumptions:

Risk-free interest rate	1.87%
Volatility	63.8%
Expected life	1.33 years
Dividend yield	0%

In connection with the private placement, the Company paid the underwriters a cash commission totalling \$844,956, and issued 670,600 warrants to the underwriters (the "Agents' Warrants"). Each Agents' Warrant is exercisable into one common share at a price of \$1.80 per share until August 9, 2012. The Company also issued 30,175 common shares with a fair value of \$54,315.

The fair value assigned to the 670,600 agents' warrants was \$364,473 and has been credited to contributed surplus, calculated using the *Black-Scholes Option Pricing Model* with the following assumptions:

Risk-free interest rate	1.87%
Volatility	63.8%
Expected life	1.33years
Dividend yield	0%

- (vi) On March 31, 2011, the Company issued 1,206,500 common shares to UBC for acquisition of Technology (Note 5). The common shares had a fair value of \$2,496,938, or \$2.07 per share. Pursuant to the UBC Patent Agreement, the price per share was calculated as the average closing price of the Company's shares for the five days preceding the signature of this agreement.

(c) Warrants

The continuity of share purchase warrants for the year ended September 30, 2011 is as follows:

	Number of warrants	Weighted average exercise price
Balance, September 30, 2009	7,351,487	\$ 0.45
Issued	2,350,832	1.11
Exercised	(7,406,903)	0.45
Balance, September 30, 2010	2,295,416	\$ 1.11
Issued	4,023,600	2.18
Exercised	(2,238,210)	1.11
Expired	(20)	1.15
Balance, September 30, 2011	4,080,786	\$ 2.16

EnWave Corporation

Notes to Financial Statements

September 30, 2011 and 2010

(Expressed in Canadian dollars)

6. Share capital (cont'd.)

(c) Warrants (cont'd)

During the year ended September 30, 2011, a total of 1,897,424 warrants and 340,786 agents' warrants were exercised at prices ranging from \$0.90 to \$1.15 for total proceeds of \$2,493,119. A fair value of \$612,210 was transferred to share capital from contributed surplus in connection with those exercises.

The following share purchase warrants are outstanding as at September 30, 2011:

Number of warrants	Exercise price	Expiry date
3,353,000	\$ 2.25	August 9, 2012
57,186 *	0.90	January 19, 2012
670,600 *	1.80	August 9, 2012
4,080,786	\$ 2.16	

* Agents' warrants

As at September 30, 2011, the weighted average remaining contractual life of the outstanding warrants was 0.85 years (September 30, 2010 – 0.47 years).

(d) Stock options

The Company's stock option plan (the "Plan") is available to eligible persons, whereby up to 7,940,000 common shares of the Company may be reserved for issuance pursuant to the exercise of the options. Options issued under the Plan will vest in the terms approved by the board of directors for each specific grant, except for options granted to individuals engaged in investor relations activities, which must vest over a 12-month period.

The minimum exercise price of a stock option cannot be less than the applicable closing market price of the Company's shares on the date prior to the stock option grant, and cannot be lower than \$0.10. Options issued under the Plan have a maximum life of ten years.

During the year ended September 30, 2011, the Company granted an aggregate of 967,500 incentive stock options to employees, consultants and directors.

For the options that vested during the fiscal year, which includes the vesting of some options granted in prior years, an amount of \$737,247 (2010: \$583,836) of stock-based compensation was recorded.

During the year ended September 30, 2011, 2,338,500 options were exercised for cash proceeds of \$939,550. A fair value of \$1,005,809 was transferred to share capital from contributed surplus in connection with this exercise.

EnWave Corporation

Notes to Financial Statements

September 30, 2011 and 2010

(Expressed in Canadian dollars)

6. Share capital (cont'd.)

(d) Stock options (cont'd)

The continuity of options for the year ended September 30, 2011 is as follows:

	Amount	Weighted average exercise price
Outstanding, September 30, 2009	5,435,000	\$ 0.35
Granted	1,210,000	0.76
Exercised	(663,333)	0.23
Outstanding, September 30, 2010	5,981,667	\$ 0.44
Granted	967,500	1.69
Exercised	(2,338,500)	0.40
Expired	(16,667)	1.02
Outstanding at September 30, 2011	4,594,000	\$ 0.72
Exercisable at September 30, 2011	3,824,827	\$ 0.53

The following weighted average assumptions were used for the valuation of stock options:

	September 30, 2011	September 30, 2010
Risk-free interest rate	2.05%	2.60%
Expected life	3.88 years	3.86 years
Estimated volatility	78.58%	75.57%
Dividend rate	0.00%	0.00%

The Company has the following stock options as at September 30, 2011:

Options outstanding	Options exercisable	Exercise price	Year of expiry
1,685,000	1,685,000	0.33-0.50	2012
1,000,000	1,000,000	0.30-0.38	2013
430,000	430,000	0.35-0.50	2014
1,101,500	688,159	1.02-1.70	2015
377,500	21,668	1.55-2.18	2016
4,594,000	3,824,827	\$ 0.72	

Each stock option entitles the holder to acquire one share of the Company.

As at September 30, 2011, the weighted average remaining contractual life of the outstanding options was 2.37 years (September 30, 2010 – 2.23 years).

7. Government assistance

On August 9, 2009, the Company entered into an agreement with NRC-IRAP whereby NRC-IRAP agreed to fund the Company up to \$175,000 in matching funds over two years to continue the development of the Company's *powderREV* bulk powder dehydration technology. The agreement was later amended to increase the funding total to \$262,706 all of which were received as of September 30, 2011. A total of \$140,273 was claimed and received by the Company during the year ended September 30, 2011 (2010 - \$122,992), which was recorded as a reduction of related research and development expenses.

EnWave Corporation

Notes to Financial Statements

September 30, 2011 and 2010

(Expressed in Canadian dollars)

8. Commitments

- (a) The Company entered into a contribution agreement with the NRC on March 26, 1999, for a maximum contribution of \$480,474. The contribution is repayable to the NRC at the rate of 2.3% of revenues to a maximum of \$720,711. The Company is required to continue to make royalty payments until the earlier of the original contribution being fully repaid and January 1, 2012, after which time no further payments are required. During the year ended September 30, 2011, a total of \$4,962 (2010 - \$3,014) was paid or accrued to the NRC.
- (b) As part of a termination agreement dated June 30, 1998, and amended on September 5, 2006, the Company is committed to pay 2% of the cash flows, in each fiscal year subsequent to the year the Company first achieves \$500,000 of cash flows, until \$150,000 has been paid.
- (c) The Company entered into various lease agreements for the rental of office space, plant facilities, and laboratory facilities. The remaining lease commitments are as follows:

Fiscal year	\$
2012	153,106
2013	94,556
2014	66,658
2015	16,110

In addition, the Company will pay additional rent to cover its share of operating costs and property taxes.

- (d) After acquiring the U.S. patents and know-how for the MIVAP™ from iNAP (Note 5), the Company signed a long term agreement with Hans Binder Maschinenbau GmbH ("Hans Binder"). The Company agreed to pay iNAP 25% of license or royalty fees paid by the Company's customers who purchase MIVAP™ technology for use in food applications and 12.5% for non food applications in North American markets, and 50% of license or royalty fees paid by the Company's customers who purchase MIVAP™ technology for use in food applications and 25% for non food applications in the rest of the world.

9. Related party transactions and amounts due to related parties

Related party transactions not elsewhere disclosed in the financial statements are as follows:

Years ended September 30	2011	2010
	\$	\$
Office administration paid to a company controlled by a director	88,725	82,800
Management and director fees	296,392	220,783

These transactions are in the normal course of operations and are measured at the exchange amount agreed to by the related parties.

EnWave Corporation

Notes to Financial Statements

September 30, 2011 and 2010

(Expressed in Canadian dollars)

9. Related party transactions and amounts due to related parties (cont'd)

As at September 30, 2011, and September 30, 2010 the following amounts were due to related parties:

	September 30, 2011 \$	September 30, 2010 \$
Amounts due to officers, directors, or management	136,875	137,181
Amounts due to UBC or organizations related to UBC	-	23,236
	136,875	160,417

All amounts above are non-interest bearing.

10. Income taxes

The Company's future tax assets and liabilities are as follows:

	2011 \$	2010 \$
Future income tax assets:		
Non-capital losses carried forward	2,299,000	1,464,000
Equipment	(55,000)	52,000
Scientific research and experimental development	575,000	726,000
Investment tax credits	14,000	165,000
Share issuance costs	294,000	141,000
Other	-	46,000
	3,127,000	2,594,000
Valuation allowance	(3,127,000)	(2,594,000)
	-	-

The recovery of income taxes shown in the statements of operations and comprehensive loss differs from the amounts obtained by applying statutory rates to the loss before provision for income taxes due to the following:

	2011 \$	2010 \$
Income tax rate reconciliation:		
Net loss before taxes	4,837,000	3,228,000
Combined federal and provincial income tax rate	27.50%	29.25%
Expected income tax recovery	(1,330,000)	(944,000)
Permanent differences	317,000	234,000
Effect of income tax rate changes	118,000	38,000
Investment tax credits	16,000	(286,000)
Change in valuation allowance	533,000	888,000
Other	346,000	70,000
	-	-

EnWave Corporation

Notes to Financial Statements

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(Expressed in Canadian dollars)

10. Income taxes (cont'd.)

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. As management believes there is sufficient uncertainty regarding the realization of future tax assets, a full valuation allowance has been provided.

As at September 30, 2011, the Company has non-capital losses carried forward of approximately \$9,198,000 (2010 - \$5,856,000) which are available to reduce taxable income of future years. The non-capital losses expire as follows:

	\$
2014	82,000
2015	190,000
2026	333,000
2027	921,000
2028	1,007,000
2029	1,291,000
2030	2,392,000
2031	2,982,000
	<hr/> 9,198,000 <hr/>

The Company has scientific research and experimental development expenses of \$2,300,000 (2010 - \$2,903,000) which are available to be carried forward indefinitely and deducted against future taxable income otherwise calculated.

11. Capital management

The Company considers its share capital as capital, which at September 30, 2011 totalled \$39,783,897 (September 30, 2010 - \$21,102,583).

The Company's objectives when managing capital are to ensure sufficient resources are available to meet day-to-day operating requirements; to allow the Company to enhance and develop existing technology so that it can be sold to customers; and to have the financial ability to expand the size of its operations.

Methods used by the Company to manage its capital include the issuance of new share capital and warrants.

The Company's officers take full responsibility for managing the Company's capital and do so through quarterly meetings and regular review of financial information. The Company's board of directors is responsible for overseeing this process.

The Company is not subject to any externally imposed capital requirements.

EnWave Corporation

Notes to Financial Statements

September 30, 2011 and 2010

(Expressed in Canadian dollars)

12. Financial instruments

The Company is exposed to a number of risks related to collection of receivables, settlement of liabilities and management of cash and cash equivalents. See Note 2 for classification.

Credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents, restricted cash, and receivables. The Company aims to protect its cash and cash equivalents from undue risk by holding them with various high credit quality financial institutions located in Canada. The Company's cash and cash equivalents consist primarily of short term investments with commercial banks in Canada.

The Company assesses the risk of default on its accounts receivable associated with a particular company. In addition, on an ongoing basis, management monitors the level of receivables attributable to each customer and the length of time taken for amounts to be settled and where necessary, takes appropriate action to follow up on those balances considered overdue.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective when managing liquidity risk is to ensure that it has sufficient liquidity available to meet its liabilities when due.

The Company uses cash and cash equivalents to settle its financial obligations as they fall due. The ability to do this relies on the Company collecting its receivables in a timely manner and on maintaining sufficient cash on hand.

At September 30, 2011, the Company's accounts payable and accrued liabilities including amounts due to related parties were \$399,929 (September 30, 2010 - \$347,797) all of which fall due for payment within 12 months of the balance sheet date.

The Company manages liquidity risk through ongoing review of receivables balances and the following up of amounts past due and the management of its cash and cash equivalents and their allocation between cash on hand and short-term deposit.

Market risk

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

Interest rate risk

The Company limits its exposure to interest rate risk by investing in short term investments at major Canadian financial institutions.

A 1% change in interest rates would affect the results of operations by approximately \$105,000.

Currency risk

As at September 30, 2011, all of the Company's cash and cash equivalents and restricted cash were held in Canadian dollars. While the majority of the Company's operations are in Canada, there are commission and other revenues, as well as commitments denominated in US Dollars and Euros (Note 8(d)). The Company is affected by changes in foreign exchange rates of US Dollars and Euros relative to Canadian Dollars.

EnWave Corporation

Notes to Financial Statements

September 30, 2011 and 2010

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12. Financial instruments (cont'd.)

Currency risk (cont'd.)

A change in the value of the US dollar by 10% relative to the Canadian dollar would affect the Company's results of operations by approximately \$30,000.

A change in the value of the Euros by 10% relative to the Canadian dollar would affect the Company's results of operations by approximately \$1,000.

13. Segmented information

The Company operates in one segment, that of development and commercialization of its drying technologies. All of the Company's revenue, assets and net losses are attributable to its activities in North America.