ENWAVE CORPORATION

Condensed Consolidated Interim Financial Statements

Three months ended December 31, 2019 and 2018

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

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, the financial statements must be accompanied by a notice indicating that they have not been reviewed by an auditor.

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

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

EnWave Corporation

Condensed Consolidated Interim Statements of Financial Position

As at December 31, 2019 and September 30, 2019

(Unaudited, expressed in thousands of Canadian dollars)

	Note	December 31, 2019 $	September 30, 2019 $
Assets			
Current assets			
Cash and cash equivalents		**16,537**	18,665
Restricted cash		**250**	250
Trade receivables		**4,568**	10,329
Due from customers on contract	4	**1,299**	1,557
Inventory	6	**9,915**	5,986
Prepaids and other receivables	5	**888**	942
Income taxes receivable		**199**	98
		33,656	37,827
Non-current assets			
Plant and equipment		**4,493**	4,831
Right-of-use assets	3	**1,461**	-
Intangible assets		**529**	592
		6,483	5,423
Total assets		**40,139**	43,250
Liabilities			
Current liabilities			
Short-term borrowings	7	**649**	-
Trade and other payables	8	**4,464**	8,791
Amounts due to related parties		**-**	44
Customer deposits and deferred revenue	4	**2,934**	2,768
Current portion lease liabilities	9	**408**	-
Current portion of other liability	10	**108**	108
		8,563	11,711
Non-current liabilities			
Deferred income tax liability		**179**	348
Long-term portion of lease liabilities	9	**1,118**	-
Long-term portion of other liability	10	**215**	247
		1,512	595
Total liabilities		**10,075**	12,306
Equity			
Share capital	11(b)	**79,467**	79,063
Warrants	11(c)	**1,647**	1,715
Contributed surplus		**8,470**	8,035
Foreign currency translation reserve		**521**	694
Deficit		**(60,041)**	(58,563)
Total equity		**30,064**	30,944
Total liabilities and equity		**40,139**	43,250

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

EnWave Corporation

Condensed Consolidated Interim Statements of Loss

For the three months ended December 31, 2019 and 2018

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

	Note	Three months ended December 31, 2019 $	2018 $
Revenues	13	**8,609**	7,806
Direct costs		**(5,413)**	(4,769)
		3,196	3,037
Expenses			
General and administration		**1,758**	998
Sales and marketing		**1,943**	976
Research and development		**535**	341
Amortization of intangible assets		**62**	137
Stock-based compensation	11(d)	**468**	357
Foreign exchange loss (gain)		**45**	(55)
Finance income, net		**(34)**	(18)
		4,777	2,736
(Loss) income before income taxes		**(1,581)**	301
Income tax expense (recovery)			
Current		**11**	304
Deferred		**(166)**	12
Net loss for the period		**(1,426)**	(15)
Basic and diluted loss per share		**(0.01)**	(0.00)
Weighted average number of shares outstanding – basic and diluted		**110,955,112**	101,473,352

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

EnWave Corporation

Condensed Consolidated Interim Statements of Comprehensive Loss

For the three months ended December 31, 2019 and 2018

(Unaudited, expressed in thousands of Canadian dollars)

	Three months ended December 31,	
	2019 **$**	**2018** **$**
Net loss for the period	**(1,426)**	(15)
Other comprehensive income		
Items that may be subsequently reclassified to profit or loss		
Foreign exchange translation (loss) gain	**(173)**	384
Total comprehensive (loss) income for the period	**(1,599)**	369

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

EnWave Corporation

Condensed Consolidated Interim Statements of Changes in Equity

For the three months ended December 31, 2019 and 2018

(Unaudited, expressed in thousands of Canadian dollars)

	Share capital						
	Number	Value $	Warrants $	Contributed surplus $	Foreign currency translation reserve $	Deficit $	Total equity $
Balance – September 30, 2018	100,926,409	63,391	1,895	7,582	548	(56,494)	16,922
Impact of adopting IFRS 15	-	-	-	-	-	(83)	(83)
Net loss for the period	-	-	-	-	-	(15)	(15)
Effects of foreign currency translation	-	-	-	-	384	-	384
Shares issued on exercise of Underwriter's Warrants	23,327	30	(6)	-	-	-	24
Shares issued on exercise of warrants	12,500	18	(3)	-	-	-	15
Shares issued on exercise of stock options	840,000	1,094	-	(265)	-	-	829
Restricted share rights	-	-	-	66	-	-	66
Stock-based compensation	-	-	-	291	-	-	291
Balance – December 31, 2018	101,802,236	64,533	1,886	7,674	932	(56,592)	18,433
Balance – September 30, 2019	110,836,515	79,063	1,715	8,035	694	(58,563)	30,944
Impact of adopting IFRS 16 (note 3)	-	-	-	-	-	(52)	(52)
Net loss for the period	-	-	-	-	-	(1,426)	(1,426)
Effects of foreign currency translation	-	-	-	-	(173)	-	(173)
Shares issued on exercise of Underwriter's Warrants	54,446	70	(13)	-	-	-	57
Shares issued on exercise of warrants	114,544	191	(53)	-	-	-	138
Expiry of Underwriter's Warrants	-	-	(2)	2	-	-	-
Shares issued on exercise of stock options	103,000	143	-	(35)	-	-	108
Restricted share rights	-	-	-	83	-	-	83
Stock-based compensation	-	-	-	385	-	-	385
Balance – December 31, 2019	111,108,505	79,467	1,647	8,470	521	(60,041)	30,064

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

EnWave Corporation

Condensed Consolidated Interim Statements of Cash Flows

For the three months ended December 31, 2019 and 2018

(Unaudited, expressed in thousands of Canadian dollars)

	Note	Three months ended December 31, 2019 $	2018 $
Cash flows from operating activities			
Net loss for the period		**(1,426)**	(15)
Items not affecting cash			
Depreciation and amortization		**359**	578
Gain on disposal of assets		**(3)**	-
Stock-based compensation	11(d)	**468**	357
Finance income, net		**(34)**	(18)
Income tax (recovery) expense		**(155)**	316
Inventory write-offs		**76**	-
Foreign exchange loss (gain)		**45**	(55)
		(670)	1,163
Changes in non-cash working capital			
Trade receivables		**5,700**	(688)
Prepaids and other receivables		**(332)**	(83)
Inventory		**(4,465)**	(326)
Trade and other payables		**(3,354)**	(421)
Due to/from related parties		**-**	(19)
Due from customers on contract and deferred revenue		**440**	723
Net cash (used in) generated from operating activities before income taxes		**(2,681)**	349
Income taxes paid		**(115)**	(462)
Net cash used in operating activities		**(2,796)**	(113)
Cash flows from investing activities			
Acquisition of plant and equipment		**(218)**	(690)
Proceeds from disposal of plant and equipment		**7**	-
Finance income received		**78**	27
Net cash used in investing activities		**(133)**	(663)
Cash flows from financing activities			
Proceeds from exercise of stock options	11(d)	**108**	830
Proceeds from exercise of warrants	11(c)	**195**	39
Proceeds from line of credit		**665**	-
Payment of lease liabilities	9	**(128)**	-
Payment of other liability	10	**(25)**	(33)
Net cash generated from financing activities		**815**	836
Effect of foreign exchange translation on cash		**(14)**	118
(Decrease) increase in cash and cash equivalents		**(2,128)**	178
Cash and cash equivalents - Beginning of period		**18,665**	9,101
Cash and cash equivalents - End of period		**16,537**	9,279
Non-cash transactions			
Acquisition of plant and equipment through accounts payable		**(99)**	43
Purchase of inventory through accounts payable		**(518)**	-

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

1 Nature of operations

EnWave Corporation ("EnWave" or "the Company") was incorporated under the Canada Business Corporations Act on July 14, 1999. The Company's principal business is the design, construction, marketing and sales of microwave-vacuum machinery for the food, cannabis and biomaterial dehydration industries that utilize intellectual property developed by the Company.

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

The Company's wholly owned subsidiary, NutraDried Food Company, LLC ("NutraDried"), is a Limited Liability Corporation registered in Washington State. NutraDried manufactures, markets and sells certain dehydrated food products under the Company's Moon Cheese® trademark throughout North America.

2 Basis of preparation

Statement of compliance

These condensed consolidated interim financial statements ("interim financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as applicable to the preparation of interim financial statements, as set out in International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. They do not include all the information required for a complete set of IFRS financial statements and should be read in conjunction with the audited annual consolidated financial statements of the Company for the year ended September 30, 2019. There are selected explanatory notes included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last annual consolidated financial statements as at and for the year ended September 30, 2019.

These interim financial statements were approved for issuance by the Board of Directors for issue on February 25, 2020.

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 $496 (2018 - $327).

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 liabilities

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

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

Other than noted below, the accounting policies adopted are consistent with the September 30, 2019 annual consolidated financial statements and the unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's 2019 annual audited consolidated financial statements.

New accounting standards adopted during the period

Beginning on October 1, 2019, the Company adopted certain IFRS standards and amendments. As required by IAS 34, *Interim Financial Reporting* and IAS 8*, Accounting Policies, Changes in Accounting Estimates and Errors*, the nature of these changes are disclosed below.

(Unaudited, expressed in thousands of Canadian dollars)

IFRS 16 - Leases

Effective October 1, 2019, the Company adopted IFRS 16, *Leases* (IFRS 16), which supersedes previous accounting standards for leases, including IAS 17, *Leases* (IAS 17), and IFRIC 4, *Determining whether an arrangement contains a lease* (IFRIC 4).

IFRS 16 introduced a single accounting model for lessees. A lessee is required to recognize, on its statement of financial position, a right-of-use asset, representing its right to use the underlying leased asset, and a lease liability, representing its obligation to make lease payments. As a result of adopting IFRS 16, the Company has recognized a significant increase to both assets and liabilities on the condensed consolidated interim statements of financial position, as well as a decrease to operating costs (for the removal of rent expense for leases), an increase to depreciation and amortization (due to depreciation of the right-of-use asset), and an increase to finance costs (due to accretion of the lease liability).

The Company has adopted IFRS 16 using the modified retrospective approach with the cumulative effect of initial application recognized as an adjustment to retained deficit within shareholders' equity on October 1, 2019. The Company did not restate the comparative results for the year ended September 30, 2019. The definition of a lease under IFRS 16 was applied to all existing contracts and new contracts entered into or changed after October 1, 2019.

For leases that were classified as operating leases under IAS 17, lease liabilities at transition have been measured at the present value of remaining lease payments, discounted at the related incremental borrowing rates as at October 1, 2019. Generally, right-of-use assets at transition have been measured at an amount equal to and adjusted for any prepaid or accrued rent relating to that lease. For certain leases where the Company had readily available information, the Company elected to measure the right-of-use assets at their carrying amounts since the lease commencement date using the related incremental borrowing rate for the remaining lease periods as at October 1, 2019.

The Company elected to apply the two recognition exemptions for operating leases at October 1, 2019 and subsequently:

- any lease term that is less than 12 months is considered short term and does not require IFRS 16 application; and
- any lease of low-value assets does not require IFRS 16 application.

When applying IFRS 16 to leases previously classified as operating leases the following practical expedients available were applied:

- applied a single discount rate to a portfolio of leases with similar characteristics;
- excluded initial direct costs from measuring the right-of-use asset as at October 1, 2019; and
- did not to apply IFRS 16 on leases with a remaining term of less than 12 months at October 1, 2019.

The financial impact of adopting IFRS 16 on the opening condensed consolidated interim statement of financial position is as follows:

	As at October 1, 2019 $
Right-of-use assets	1,569
Lease liabilities	1,622
Retained deficit	52

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

Leases

At inception of a contract, the Company determines if a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset the Company assesses whether:

- the contract involves the use of an identified asset;
- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use; and
- the Company has the right to direct the use of the asset.

This policy is applied to contracts entered into, or changed, on or after October 1, 2019.

Lease accounting

For contracts assessed as or containing a lease, the Company records a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, consisting of:

- the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date; plus
- any initial direct costs incurred; and
- an estimate of costs to dismantle and remove the underlying asset or restore the site on which it is located; less
- any lease incentives received.

The right-of-use asset is depreciated on a straight-line basis over the lease term.

The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate. The Company uses the relevant incremental borrowing rate as the rate implicit in the Company's leases cannot be readily determined.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; and
- amounts expected to be payable under a residual value guarantee.

The lease liability is subsequently measured at amortized cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise purchase, extension or termination options.

4 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.

(Unaudited, expressed in thousands of Canadian dollars)

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 as (or when) the Company performs under the contract.

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

	December 31, 2019 $	September 30, 2019 $
Due from customers on contract	1,299	1,557
Customer deposits and deferred revenues	(2,934)	(2,768)
	(1,635)	(1,211)

During the three months ended December 31, 2019, the Company recognized revenue from equipment sales and construction contracts of $1,118 (2019 - $405) that was included as deferred revenue at the beginning of the period.

5 Prepaids and other receivables

	December 31, 2019 $	September 30, 2019 $
Prepaid expenses	837	810
Indirect tax receivable	51	132
	888	942

6 Inventory

	December 31, 2019 $	September 30, 2019 $
Machine parts and work-in-progress	2,578	2,198
Food products	6,914	3,562
Packaging supplies	423	226
	9,915	5,986

During the three months ended December 31, 2019, the Company recorded $76 (2018 - $nil) of inventory write-offs related to machine parts. This was recognized as an expense and included in direct costs in the condensed consolidated interim statement of loss.

7 Short-term borrowings

The Company's subsidiary, NutraDried, has a credit line agreement for up to US$500 of short-term borrowings that is payable on demand. The credit facility bears interest rate at the Wall Street Journal Prime Rate plus 1.5%, with a floor of 5.75%. The amount outstanding at December 31, 2019 is $649 (US$500) (2019 - $nil). NutraDried is subject to current ratio and leverage ratio covenants under the terms of the credit facility, and is in compliance with those covenants.

(Unaudited, expressed in thousands of Canadian dollars)

8 Trade and other payables

	December 31, 2019 $	September 30, 2019 $
Trade payables	2,129	5,051
Accrued liabilities	1,377	2,175
Personnel related accruals	674	1,301
Provision for warranty	284	264
	4,464	8,791

9 Lease liabilities

The following is a continuity schedule of lease liabilities for the three months ended December 31, 2019:

	$
Balance – September 30, 2019	-
IFRS 16 transition [(1)]	1,622
Lease payments	(128)
Interest expense on lease liabilities	32
Balance – December 31, 2019	1,526
Current portion	(408)
Long-term portion	1,118

[(1)] Effective October 1, 2019, the Company adopted IFRS 16, *Leases* (note 3).

Maturity of contractual undiscounted lease payments	**December 31, 2019 $**
Less than one year	513
One to five years	1,257
	1,770

10 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, and the agreement expires on February 3, 2019. For usage outside of North America, the Company remits 25% for food applications and 12.5% for non-food applications, and the agreement expires on October 15, 2022. Additionally, the Company agreed to pay INAP a fee equal to 2.5% of the net purchase price of each machine sold that makes use of the acquired patents and know-how.

(Unaudited, expressed in thousands of Canadian dollars)

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. As at December 31, 2019, there was a minimum royalty obligation payable by the Company recorded in other liability of $323 (September 30, 2019 - $355).

	Undiscounted royalties payable US$	**Undiscounted royalties payable CA$**
2020	75	97
2021	100	130
2022	100	130
2023	4	5
Total	279	362

11 Share capital

a) Authorized: unlimited number of voting common shares without par value. Issued and outstanding: 111,108,505.

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

b) Issued and fully paid:

		Share capital
	Number	**Value $**
Balance – October 1, 2018	100,926,409	63,391
Shares issued with private placement (i)	5,302,227	10,087
Share issue costs (i)	-	(910)
Shares issued on exercise of Underwriter's Warrants	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 vesting of RSRs	70,000	58
Balance – September 30, 2019	110,836,515	79,063
Shares issued on exercise of Underwriter's Warrants	54,446	70
Shares issued on exercise of Investor's Warrants	114,544	191
Shares issued on exercise of stock options	103,000	143
Balance – December 31, 2019	111,108,505	79,467

i) 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.

(Unaudited, expressed in thousands of Canadian dollars)

c) Warrants

The continuity of share purchase warrants during the three months ended December 31, 2019 and 2018 is as follows:

	Number of warrants	Weighted average exercise price $	Fair value at grant date $
Balance – September 30, 2018	8,522,476	1.36	0.27
Issued:			
Investor's Warrants (i)	226,801	1.50	0.27
Exercised:			
Underwriter's Warrants (ii)	(453,609)	1.05	0.36
Investor's Warrants (i) (iii)	(341,937)	1.21	0.24
Balance – September 30, 2019	7,953,731	1.39	0.26
Issued:			
Investor's Warrants (i)	27,220	1.50	0.27
Exercised:			
Underwriter's Warrants (ii)	(54,446)	1.05	0.36
Investor's Warrants (iii)	(114,544)	1.20	0.24
Expired:			
Underwriter's Warrants (ii)	(6,509)	1.05	0.36
Balance – December 31, 2019	7,805,452	1.39	0.26

i) Each Investor 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.

ii) 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 expired on November 15, 2019. The share purchase warrants issued on exercise 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 Underwriter's Warrants was calculated using the Black-Scholes model to be $0.36 per each Underwriter's Warrant. 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.

iii) Each Investor Warrant issued is exercisable into one common share of the Company at an exercise price of $1.20 per share expiring on October 22, 2020. The fair value of the warrants at the date of grant was estimated at $0.24 per warrant using the Black-Scholes model based on the following assumptions: Stock price volatility 54%, risk-free interest rate of 0.81%, dividend yield 0%, and expected life of 5.0 years.

(Unaudited, expressed in thousands of Canadian dollars)

The following table summarizes the warrants that remain outstanding as at December 31, 2019:

Exercise price $	Number of warrants	Expiry date
1.20	2,793,250	October 22, 2020
1.50	5,012,202	November 15, 2022
	7,805,452	

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 TSX Venture Exchange.

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

The changes in options for the three months ended December 31, 2019 and 2018 were as follows:

	December 31, 2019		December 31, 2018	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Outstanding, beginning of the period	5,952,000	1.45	7,291,001	1.12
Options granted	710,000	1.73	1,260,000	1.34
Options exercised	(103,000)	1.05	(840,000)	0.99
Options expired	(163,333)	1.35	(135,001)	1.40
Outstanding, end of the period	**6,395,667**	**1.49**	**7,576,000**	**1.17**
Exercisable, end of the period	**3,434,799**	**1.24**	**4,495,899**	**1.17**

The weighted average fair value of options granted during the three months ended December 31, 2019 was $0.57 per option (2018 - $0.47).

(Unaudited, expressed in thousands of Canadian dollars)

The following weighted average assumptions were used in calculating the fair value of the stock options granted using the Black-Scholes model for the three months ended December 31, 2019 and 2018:

	Three months ended December 31, 2019	2018
Risk-free interest rate	1.54%	2.26%
Expected life	3.73 years	3.21 years
Estimated volatility	42%	43%
Forfeiture rate	1.25%	1.25%
Dividend rate	0.00%	0.00%

Stock options outstanding as at December 31, 2019 have the following expiry date and exercise prices:

Year of expiry	**Exercise price per share $**	**Number of options**
2020	0.80	24,000
2021	0.87 - 1.28	445,000
2022	1.00 - 1.09	732,400
2023	1.07 - 1.45	2,874,267
2024	1.37 - 2.19	2,320,000
		6,395,667

During the three months ended December 31, 2019, the Company recorded stock-based compensation expense of $468 (2018 - $357), which includes compensation expense for stock options and for restricted share rights ("RSRs"). The fair value of each option and RSR is accounted for in the condensed consolidated interim 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 three months ended December 31, 2019 and 2018 were as follows:

	December 31, 2019		**December 31, 2018**	
	Number of RSRs	**Weighted average grant date fair value $**	**Number of RSRs**	**Weighted average grant date fair value $**
Outstanding, beginning of period	775,000	1.29	710,000	1.21
RSRs granted	-	-	205,000	1.34
RSRs forfeited	(30,000)	1.40	(90,000)	1.29
Outstanding, end of period	**745,000**	**1.29**	**825,000**	**1.23**

(Unaudited, expressed in thousands of Canadian dollars)

During the three months ended December 31, 2019, stock-based compensation expense of $83 (2018 - $66) was recorded for the RSRs vested during the period. RSRs vest three years from the award date, in accordance with the RSR Plan.

12 Related party transactions

a) Key management personnel compensation

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

Remuneration of key management personnel of the Company during the three months ended December 31, 2019 and 2018 comprises the following expenses:

	Three months ended December 31, 2019 $	2018 $
Salaries, bonuses and short-term employee benefits	755	531
Stock-based compensation	242	221
	997	752

b) Transactions with related parties

The Company had transactions with related parties for the three months ended December 31, 2019 and 2018 in the normal course of business as shown in the table below:

	Three months ended December 31, 2019 $	2018 $
Directors’ fees	40	23
Stock-based compensation	74	221
	114	244

13 Revenues

a) Revenue breakdown for the three months ended December 31, 2019 and 2018 is as follows:

	Three months ended December 31, 2019 $	2018 $
Equipment sales and construction contracts	3,618	1,033
Product sales	4,054	6,328
Equipment rental fees, testing fees and other revenue	535	194
Royalties and licensing fees	402	251
	8,609	7,806

(Unaudited, expressed in thousands of Canadian dollars)

Individual customers representing over 10% of the total revenue during the three months ended December 31, 2019 and 2018 were as follows:

	December 31, 2019		December 31, 2018	
Customer	**$**	**%**	**$**	**%**
A	1,265	15	3,862	49
B	1,214	14	753	10
C	951	11	-	-
Others	5,179	60	3,191	41
	8,609	100	7,806	100

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

	December 31, 2019		September 30, 2019	
Customer	**$**	**%**	**$**	**%**
X	1,341	29	7,476	72
Y	845	18	-	-
Others	2,382	53	2,853	28
	4,568	100	10,329	100

14 Expenses by nature

Details of consolidated expenses by nature for direct costs, general and administration, sales and marketing, and research and development expenses for the three months ended December 31, 2019 and 2018 are shown below:

	Three months ended December 31,	
	2019	**2018**
Details of expenses by nature	**$**	**$**
Salaries, wages and employee expenses	3,521	1,930
Cost of materials	3,302	3,173
Commissions, travel and promotion	1,347	518
Professional services	718	398
Depreciation of plant and equipment	297	441
Other expenses	184	418
Office and courier	180	58
Facilities expenses	100	148
Total expenses	9,649	7,084

15 Financial instruments risk

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 condensed consolidated interim financial statements.

Credit risk

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

(Unaudited, expressed in thousands of Canadian dollars)

The Company provides credit to its customers in the normal course of business and, as such, has exposure to credit risk in relation to the collection of trade receivables and due from customers on contract. 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 and due from customers on contract by maintaining ongoing close contact with customers 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 December 31, 2019, the Company has recorded a $58 (2018 - $58) 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 and US 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 December 31, 2019:

	Neither past due nor impaired	**Past due but not impaired**		
	0 – 30 days	**31 – 90 days**	**91 – 365 days**	**Over 365 days**
Trade receivables	3,050	1,439	79	-
Due from customers on contract	1,299	-	-	-
	4,349	1,439	79	-

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.

(Unaudited, expressed in thousands of Canadian dollars)

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.

The Company attempts to ensure that sufficient funds are available 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. As at December 31, 2019, the Company had cash and cash equivalents of $16,537 to settle current liabilities of $8,563.

a) Financial assets maturity table:

	0 – 30 days	**31 – 90 days**	**91- 365 days**	**Over 365 days**
Cash and cash equivalents and restricted cash	16,537	-	250	-
Trade receivables	4,391	98	79	-
Due from customers on contract	-	1,082	217	-
Income taxes receivable	199	-	-	-
	21,127	1,180	546	-

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

	0 – 30 days	**31 – 90 days**	**91- 365 days**	**Over 365 days**
Short-term borrowings	649	-	-	-
Trade and other payables	4,431	33	-	-
Lease liabilities	34	66	308	1,118
	5,114	99	308	1,118

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, restricted cash, and short-term borrowings. The Company earns interest on deposits based on current market interest rates, which during the three months ended December 31, 2019 ranged from 2.00% to 2.30% (2018 - 1.35% to 2.20%). A 1% change in interest rates would affect the results of operations by approximately $35 (2018 - $15).

Foreign exchange risk

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

(i) the Company operates in the United States and a portion of its expenses are incurred in US dollars; and

(Unaudited, expressed in thousands of Canadian dollars)

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

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 December 31, 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 when appropriate to minimize exposure to foreign currencies when appropriate. As at December 31, 2019, and September 30, 2019, the Company held no foreign exchange contracts. The fair values of the foreign exchange derivatives are recurring measurements and are determined whenever possible based on observable market data. If observable market data on the financial derivatives is not available, the Company uses observable spot and forward foreign exchange rates to estimate their fair values.

A change in the value of the Canadian dollar by 10% relative to foreign currencies the Company is exposed to would have affected the Company's net loss for the three months ended December 31, 2019 and 2018 as follows:

Currency	**2019 $**	**2018 $**
US dollar	113	103

Capital management

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

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

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

(Unaudited, expressed in thousands of Canadian dollars)

16 Segmented information

The Company has assessed its operating segments to be EnWave Canada and EnWave USA 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 select accounts for each segment are shown below.

As at	December 31, 2019			September 30, 2019		
	EnWave Canada $	EnWave USA $	Total $	EnWave Canada $	EnWave USA $	Total $
Assets						
Trade receivables	2,933	1,635	4,568	1,356	8,973	10,329
Inventory	2,578	7,337	9,915	2,198	3,788	5,986
Plant and equipment	1,021	3,472	4,493	1,092	3,739	4,831
Right-of-use assets	1,342	119	1,461	-	-	-
Intangible assets	500	29	529	560	32	592
	8,374	12,592	20,966	5,206	16,532	21,738
Liabilities						
Short-term borrowings	-	649	649	-	-	-
Trade and other payables	1,020	3,444	4,464	2,312	6,479	8,791
Amounts due to related parties	-	-	-	-	44	44
Customer deposits and deferred revenue	2,934	-	2,934	2,768	-	2,768
Lease liabilities	1,396	130	1,526	-	-	-
Other liability	323	-	323	355	-	355
	5,673	4,223	9,896	5,435	6,523	11,958

For the three months ended	December 31, 2019			
	EnWave Canada $	EnWave USA $	Elimination adjustments $	Total $
Revenues – external customers	4,555	4,054	-	8,609
Revenues – other segments	348	-	(348)	-
Total revenues	4,903	4,054	(348)	8,609
Expenses	(5,693)	(4,660)	318	(10,035)
Net loss	(790)	(606)	(30)	(1,426)

For the three months ended	December 31, 2018			
	EnWave Canada $	EnWave USA $	Elimination adjustments $	Total $
Revenues – external customers	1,478	6,328	-	7,806
Revenues – other segments	565	-	(565)	-
Total revenues	2,043	6,328	(565)	7,806
Expenses	(3,204)	(5,182)	565	(7,821)
Net (loss) income	(1,161)	1,146	-	(15)

Revenues for EnWave Canada comprise all equipment sales and construction contracts, royalties and licensing fees, and equipment rental fees, testing fees and other revenue referred to in note 13 and account for approximately 53% of the consolidated revenues. Revenues for EnWave USA relate to product sales referred to in note 13 and account for approximately 47% of the consolidated revenue.