ENWAVE CORPORATION

Condensed Consolidated Interim Financial Statements

Three and nine months ended June 30, 2021 and 2020

(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 Income (Loss)

For the three and nine months ended June 30, 2021 and 2020

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

		Three months ended		Nine months ended	
		June 30, 2021 $	**June 30, 2020 $**	**June 30, 2021 $**	**June 30, 2020 $**
Revenues	14	**7,351**	5,998	**19,570**	22,099
Direct costs		**4,737**	4,441	**14,780**	15,483
		2,614	1,557	**4,790**	6,616
Expenses					
General and administration		**1,035**	1,197	**3,375**	4,513
Sales and marketing		**831**	1,449	**3,656**	5,188
Research and development		**391**	396	**1,423**	1,412
Stock-based compensation	12(d)	**198**	314	**637**	1,156
Amortization of intangible assets		**59**	62	**181**	186
Other income	16	**(225)**	(690)	**(1,033)**	(690)
Foreign exchange (gain) loss		**(275)**	151	**4**	(142)
Restructuring costs	17	**-**	-	**691**	-
Finance (income) expense, net		**-**	(27)	**1**	(87)
		2,014	2,852	**8,935**	11,536
Income (loss) before income taxes		**600**	(1,295)	**(4,145)**	(4,920)
Income tax expense (recovery)					
Current		**7**	(116)	**(453)**	(410)
Deferred		**(77)**	(13)	**(705)**	(68)
Net income (loss) for the period		**670**	(1,166)	**(2,987)**	(4,442)
Net income (loss) per common share					
Basic		**0.00**	(0.01)	**(0.03)**	(0.04)
Diluted		**0.00**	(0.01)	**(0.03)**	(0.04)
Total weighted average common shares outstanding					
Basic		**111,641,214**	111,409,755	**111,563,969**	111,206,490
Diluted		**112,453,885**	111,409,755	**111,563,969**	111,206,490

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

EnWave Corporation

Condensed Consolidated Interim Statements of Comprehensive Income (Loss)

For the three and nine months ended June 30, 2021 and 2020

(Unaudited, expressed in thousands of Canadian dollars)

	Three months ended		Nine months ended	
	June 30, 2021 $	**June 30, 2020 $**	**June 30, 2021 $**	**June 30, 2020 $**
Net income (loss) for the period	**670**	(1,166)	**(2,987)**	(4,442)
Other comprehensive (loss) income				
Items that may be subsequently reclassified to profit or loss				
Foreign exchange translation (loss) gain	**(434)**	(353)	**(791)**	263
Total comprehensive income (loss) for the period	**236**	(1,519)	**(3,778)**	(4,179)

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

EnWave Corporation

Condensed Consolidated Interim Statements of Financial Position

As at June 30, 2021 and September 30, 2020

(Unaudited, expressed in thousands of Canadian dollars)

	Note	June 30, 2021 $	September 30, 2020 $
Assets			
Current assets			
Cash and cash equivalents		**15,381**	14,712
Restricted cash		**287**	250
Trade receivables		**2,014**	10,992
Due from customers on contract	4	**460**	356
Loans receivable, current	7	**518**	-
Inventory	6	**5,585**	7,117
Prepaids and other receivables	5	**499**	692
Income taxes receivable		**960**	742
		25,704	34,861
Non-current assets			
Loans receivable, non-current	7	**291**	-
Deposits and other receivables		**83**	161
Plant and equipment		**4,309**	3,993
Right-of-use assets		**1,554**	1,301
Intangible assets		**186**	347
Deferred income tax asset		**441**	-
		6,864	5,802
Total assets		**32,568**	40,663
Liabilities			
Current liabilities			
Borrowings	8	**-**	667
Trade and other payables	9	**3,159**	7,704
Customer deposits and deferred revenue	4	**1,983**	1,771
Current portion lease liabilities	10	**726**	427
Current portion of other liability	11(a)	**116**	124
		5,984	10,693
Non-current liabilities			
Borrowings	8	**186**	200
Deferred income tax liability		**-**	268
Long-term portion of lease liabilities	10	**1,019**	1,019
Long-term portion of other liability	11(a)	**35**	132
		1,240	1,619
Total liabilities		**7,224**	12,312
Equity			
Share capital	12(b)	**80,304**	79,840
Warrants	12(c)	**1,040**	1,641
Contributed surplus		**10,160**	9,151
Foreign currency translation reserve		**(16)**	775
Deficit		**(66,144)**	(63,056)
Total equity		**25,344**	28,351
Total liabilities and equity		**32,568**	40,663
Contingencies and commitments	11		
Subsequent event	20		

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 nine months ended June 30, 2021 and 2020

(Unaudited, expressed in thousands of Canadian dollars)

	Share capital				Foreign currency		
	Number	Value $	Warrants $	Contributed surplus $	translation reserve $	Deficit $	Total $
Balance – September 30, 2019	110,836,515	79,063	1,715	8,035	694	(58,563)	30,944
Impact of adopting IFRS 16	-	-	-	-	-	(52)	(52)
Net loss for the period	-	-	-	-	-	(4,442)	(4,442)
Effects of foreign currency translation	-	-	-	-	263	-	263
Share issuance costs	-	2	-	-	-	-	2
Shares issued on exercise of Underwriter's Warrants	54,446	70	(13)	-	-	-	57
Shares issued on exercise of warrants	145,794	235	(59)	-	-	-	176
Expiry of Underwriter's Warrants	-	-	(2)	2	-	-	-
Shares issued on exercise of stock options	183,000	269	-	(68)	-	-	201
Shares issued with restricted share rights	190,000	201	-	(201)	-	-	-
Restricted share rights	-	-	-	222	-	-	222
Stock-based compensation	-	-	-	934	-	-	934
Balance – June 30, 2020	111,409,755	79,840	1,641	8,924	957	(63,057)	28,305
Balance – September 30, 2020	111,409,755	79,840	1,641	9,151	775	(63,056)	28,351
Net loss for the period	-	-	-	-	-	(2,987)	(2,987)
Effects of foreign currency translation	-	-	-	-	(791)	-	(791)
Expiry of warrants	-	-	(601)	601	-	-	-
Shares repurchased and cancelled (note 12b)	(206,800)	(151)	-	-	-	(101)	(252)
Shares issued on exercise of stock options	410,000	510	-	(124)	-	-	386
Shares issued with restricted share rights	75,000	105	-	(105)	-	-	-
Restricted share rights	-	-	-	233	-	-	233
Stock-based compensation	-	-	-	404	-	-	404
Balance – June 30, 2021	111,687,955	80,304	1,040	10,160	(16)	(66,144)	25,344

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 nine months ended June 30, 2021 and 2020

(Unaudited, expressed in thousands of Canadian dollars)

	Note	Nine months ended June 30, 2021 $	2020 $
Cash flows from operating activities			
Net loss for the period		**(2,987)**	(4,442)
Items not affecting cash			
Depreciation and amortization		**1,903**	1,279
Loss (gain) on disposal of assets		**8**	(17)
Stock-based compensation	12(d)	**637**	1,156
Finance income (expense), net		**1**	(87)
Income tax (recovery)		**(1,158)**	(478)
Inventory write-offs		**210**	84
Foreign exchange loss (gain)		**4**	(142)
		(1,382)	(2,647)
Changes in non-cash working capital			
Restricted cash		**(37)**	-
Trade receivables		**8,455**	6,505
Prepaids and other receivables		**108**	132
Inventory		**471**	(5,434)
Loan receivables		**(803)**	-
Trade and other payables		**(3,570)**	(3,552)
Due from customers on contract and deferred revenue		**325**	1,623
Net cash generated from (used in) operating activities before income taxes		**3,567**	(3,373)
Income taxes recovered (paid)		**177**	(151)
Net cash generated from (used in) operating activities		**3,744**	(3,524)
Cash flows from investing activities			
Acquisition of plant and equipment		**(1,845)**	(695)
Proceeds from disposal of plant and equipment		**73**	21
Acquisition of intangible assets		**(14)**	-
Finance income received		**88**	218
Net cash used in investing activities		**(1,698)**	(456)
Cash flows from financing activities			
Share issue costs	12(b)	**-**	2
Proceeds from exercise of stock options	12(d)	**386**	201
Proceeds from exercise of warrants	12(c)	**-**	233
Repurchase of shares for cancellation	12(b)	**(252)**	-
(Repayment) proceeds from line of credit		**(633)**	868
Payment of lease principal liabilities	10	**(464)**	(296)
Payment of lease interest		**(106)**	(90)
Payment received from finance leases		**23**	13
Payment of other liability	11(a)	**(69)**	(102)
Net cash (used in) generated from financing activities		**(1,115)**	829
Effect of foreign exchange translation on cash		**(262)**	45
Increase (decrease) in cash and cash equivalents		**669**	(3,106)
Cash and cash equivalents - Beginning of the period		**14,712**	18,665
Cash and cash equivalents - End of the period		**15,381**	15,559
Non-cash transactions			
Acquisition of plant and equipment through accounts payable		**(118)**	(122)
Purchase of inventory through accounts payable		**(468)**	-

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.

The Company's wholly owned subsidiary, REV Technology Corporation, is an incorporated subsidiary registered in the State of Delaware.

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, 2020. 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, 2020.

These interim financial statements were approved for issuance by the Board of Directors for issue on August 26, 2021.

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 $866 (2020 - $593).

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.

Leases

The right-of-use asset and lease liability valuations are based on the present value of the lease payments over the lease term. The lease term is determined as the non-cancellable term of the lease, which may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to extend or terminate the lease, and any modifications to the lease term will result in the revaluation of the lease. The present value of the lease payments is dependent on the incremental borrowing rate used, to which the Company applies judgement in determining the rates.

Estimated useful lives of property, plant and equipment

Depreciation of property, plant and equipment is dependent upon estimates of useful lives and residual values which are determined through knowledge of the business and judgement. Residual values, useful lives and depreciation methods are reviewed annually for relevancy and changes are accounted for prospectively. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic conditions, market conditions and the useful lives of the assets.

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.

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.

Share-based compensation

The fair value of stock options and warrants is calculated using the Black-Scholes option pricing model. When determining the fair value of stock options and warrants, management is required to make assumptions and estimates related to expected lives, volatility, risk-free rate, future dividend yields and estimated forfeitures at the initial grant date. Changes in assumptions used to estimate the fair value could result in materially different results.

3 Significant accounting policies

Other than noted below, the accounting policies adopted are consistent with the September 30, 2020 annual consolidated financial statements and the unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's 2020 annual audited consolidated financial statements.

New accounting standard adopted during the period

The accounting policies adopted are consistent with the September 30, 2020 annual consolidated financial statements and the unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's 2020 annual audited consolidated financial statements.

Accounting standards and amendments issued and not yet adopted

IAS 1 - Classification of Liabilities as Current or Non-Current

The amendment clarifies the classification requirements to determine if a liability should be presented as current or non-current in the statement of financial position. Under the new requirement, the assessment of whether a liability is presented as current or non-current is based on the contractual arrangements in place as at the reporting date and does not impact the amount or timing of recognition. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and is to be applied retrospectively, with earlier application permitted. The Company is currently evaluating the potential impact of these amendments on the Company's consolidated financial statements.

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.

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.

(Unaudited, expressed in thousands of Canadian dollars)

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

	June 30, 2021 $	September 30, 2020 $
Due from customers on contract	460	356
Customer deposits and deferred revenues	(1,983)	(1,771)
	(1,523)	(1,415)

During the nine months ended June 30, 2021, the Company recognized revenue from equipment sales and construction contracts of $1,746 (2020 - $1,602) that was included as deferred revenue at the beginning of the period.

5 Prepaids and other receivables

	June 30, 2021 $	September 30, 2020 $
Prepaid expenses	435	652
Indirect tax receivables	22	13
Lease receivables	29	-
Other receivables	13	27
	499	692

6 Inventory

	June 30, 2021 $	September 30, 2020 $
Machine parts and work-in-progress	2,934	2,939
Food products	2,345	3,736
Packaging supplies	306	442
	5,585	7,117

During the nine months ended June 30, 2021, the Company recorded $210 (2020 - $83) of inventory write-offs related to machine parts and packaging supplies. This was recognized as an expense and included in direct costs in the condensed consolidated interim statements of loss.

7 Loans receivable

	June 30, 2021 $	September 30, 2020 $
Current	518	-
Non-current	291	-
	809	-

The Company provides equipment finance loans to certain customers to finance equipment purchased from the Company. The loans receivable bear interest at annual interest rates ranging between 8% and 12%, have fixed terms ranging from 12 to 46 months and are amortized with monthly blended payments of interest and principal.

(Unaudited, expressed in thousands of Canadian dollars)

The loans receivable are measured at amortized cost using the effective interest method and are secured by the underlying equipment purchased by the customer.

8 Borrowings

	June 30, 2021 $	September 30, 2020 $
Line of credit (i)	-	667
Economic Injury Disaster Loan (ii)	186	200
Total borrowings	186	867
Current (i)	-	667
Non-Current (ii)	186	200
Total borrowings	186	867

i) 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 4.25%. The amount outstanding at June 30, 2021 is $nil (September 30, 2020 - $667). NutraDried is subject to current ratio and leverage ratio covenants under the terms of the credit facility and is in compliance with those covenants.

ii) On June 15, 2020, NutraDried received proceeds from an Economic Injury Disaster Loan ("EIDL") with the U.S. Small Business Administration of US$150. The loan is amortized over 30 years and accrues interest at the rate of 3.75% annually. The Company will commence making monthly installment payments consisting of principal and interest 24 months from the date of loan issuance. The EIDL loan is secured by all tangible and intangible personal property, including, but not limited to, inventory and equipment.

9 Trade and other payables

	June 30, 2021 $	September 30, 2020 $
Trade payables	1,152	1,725
Accrued liabilities	1,081	4,500
Personnel related accruals	651	1,238
Provision for warranty	275	241
	3,159	7,704

(Unaudited, expressed in thousands of Canadian dollars)

10 Lease liabilities

The following is a continuity schedule of lease liabilities for the nine months ended June 30, 2021:

	Nine months ended June 30, 2021 $	2020 $
Balance, October 1	1,446	1,622
Lease additions	835	-
Lease payments	(570)	(386)
Finance expense on lease liabilities	106	90
Changes due to foreign exchange	(72)	3
Balance, March 31	1,745	1,329
Current	726	415
Non-current	1,019	914
	1,745	1,329

Maturity of contractual undiscounted lease payments	June 30, 2021 $
Less than one year	824
One to five years	1,079
	1,903

11 Contingencies and commitments

a) 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 expires on October 15, 2022. Additionally, the Company agreed to pay INAP a fee equal to 2.5% of the net purchase price of each machine sold that makes use of the acquired patents and know-how.

The acquired intangible asset was recorded at the fair value of the estimated minimum royalty amounts and subsequently at each reporting date at amortized cost. As at June 30, 2021, there was a minimum royalty obligation payable by the Company recorded in other liability of $151 (September 30, 2020 - $256).

(Unaudited, expressed in thousands of Canadian dollars)

	Undiscounted royalties payable US$	Undiscounted royalties payable CA$
2021	25	31
2022	100	126
2023	4	5
Total	129	162

b) 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 recognizes right-of-use assets for these leases, except for short-term and low-value leases. Short-term leases are leases with a lease term of 12 months or less and low-value assets comprise office and manufacturing equipment.

	June 30, 2021 $	September 30, 2020 $
Less than 1 year	10	62
Between 1 and 5 years	12	27
Total	22	89

The Company is committed to incurring capital expenditures relating to the completion of the REVworx™ toll manufacturing facility of $485 (September 30, 2020 - $nil). These commitments are expected to be settled within the next twelve months.

c) Letter of credit to customers

As at June 30, 2021, the Company had a letter of credit for US $437 (CA $542) issued in favour of a customer related to the terms of an equipment purchase contract. The letter of credit is guaranteed by an Export Development Canada ("EDC") guarantee and is not subject to any other collateral requirements by the Company. The letter of credit will be returned to the Company upon confirmation that the equipment has been shipped to the customer according to the equipment purchase contract terms.

12 Share capital

a) Authorized: unlimited number of voting common shares without par value. Issued and outstanding: 111,687,955.

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

(Unaudited, expressed in thousands of Canadian dollars)

b) Issued and fully paid:

	Number	Share capital Value $
Balance – October 1, 2019	110,836,515	79,063
Share issue costs	-	2
Shares issued on exercise of Underwriter's Warrants	54,446	70
Shares issued on exercise of Investor's Warrants	145,794	235
Shares issued on exercise of stock options	183,000	269
Shares issued on vesting of restricted share rights	190,000	201
Balance – September 30, 2020	111,409,755	79,840
Shares issued on exercise of stock options	410,000	510
Shares issued on vesting of restricted share rights	75,000	105
Shares repurchased and cancelled (i)	(206,800)	(151)
Balance – June 30, 2021	111,687,955	80,304

i) On October 19, 2020, the TSX Venture Exchange ("TSXV") accepted the Company's notice of intention to commence a Normal Course Issuer Bid ("NCIB"). Pursuant to the NCIB, the Company may repurchase up to 10,918,104 common shares, representing approximately 10% of the public float as of October 19, 2020, but no more than 2,228,195 in any 30-day period. The NCIB period commenced on October 22, 2020 and will end on the earlier of October 21, 2021, and the completion of purchases under the NCIB. All repurchased shares will be cancelled. During the nine month period ended June 30, 2021, the Company purchased and cancelled 206,800 common shares for a total of $252 (2020 - $nil) at a volume weighted average price of $1.22 per common share. The total cost of $252 reduces share capital by $151 (2020 - $nil) and increases the deficit by $101 (2020 - $nil).

c) Warrants

The continuity of share purchase warrants during the nine months ended June 30, 2021 and 2020 is as follows:

	Number of warrants	Weighted average exercise price $	Fair value at grant date $
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)	(145,794)	1.20	0.24
Expired:			
Underwriter's Warrants (ii)	(6,509)	1.05	0.36
Balance – September 30, 2020	7,774,202	1.40	0.26
Expired:			
Investor's Warrants (iii)	(2,762,000)	1.20	0.24
Balance – June 30, 2021	5,012,202	1.50	0.27

(Unaudited, expressed in thousands of Canadian dollars)

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.

The following table summarizes the warrants that remain outstanding as at June 30, 2021:

Exercise price $	Number of warrants	Expiry date
1.50	5,012,202	November 15, 2022
	5,012,202	

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.

(Unaudited, expressed in thousands of Canadian dollars)

The changes in options for the nine months ended June 30, 2021 and 2020 were as follows:

	June 30, 2021		June 30, 2020	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Outstanding, beginning of the period	6,975,667	1.46	5,952,000	1.45
Options granted	1,262,000	1.20	2,135,000	1.40
Options exercised	(410,000)	0.94	(183,000)	1.10
Options expired	(622,000)	1.52	(716,667)	1.37
Outstanding, end of the period	**7,205,667**	**1.44**	**7,187,333**	**1.45**
Exercisable, end of the period	**5,577,001**	**1.50**	**4,541,500**	**1.37**

The weighted average fair value of options granted during the nine months ended June 30, 2021 was $0.54 per option (2020 - $0.33).

The following weighted average assumptions were used in calculating the fair value of the stock options granted using the Black-Scholes model for the nine months ended June 30, 2021 and 2020:

	Nine months ended June 30, 2021	2020
Risk-free interest rate	0.60%	0.82%
Expected life	3.12 years	3.65 years
Estimated volatility	63%	50%
Forfeiture rate	2.00%	1.33%
Dividend rate	0.00%	0.00%

Stock options outstanding as at June 30, 2021 have the following expiry dates and exercise prices:

Year of expiry	Exercise price per share $	Number of options
2021	1.28	10,000
2022	1.00 - 1.09	432,400
2023	1.07 - 1.45	2,326,267
2024	1.37 - 2.19	1,950,000
2025	1.06 - 1.25	1,400,000
2026	1.10 - 1.65	1,087,000
		7,205,667

During the nine months ended June 30, 2021, the Company recorded stock-based compensation expense of $637 (2020 - $1,156), 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 statements of income over the vesting period, and the related credit is included in contributed surplus.

e) Restricted share rights

The shareholders of the Company have approved an RSR Plan pursuant to which the Company has reserved up to a maximum of 1,895,000 common shares for RSRs. The common shares reserved under the RSR Plan, together with stock options outstanding under the Option Plan, cannot exceed in aggregate 10% of the issued and outstanding shares of the Company.

(Unaudited, expressed in thousands of Canadian dollars)

The changes in RSRs for the nine months ended June 30, 2021 and 2020 were as follows:

	June 30, 2021		June 30, 2020	
	Number of RSRs	Weighted average grant date fair value $	Number of RSRs	Weighted average grant date fair value $
Outstanding, beginning of the period	790,000	1.16	775,000	1.29
RSRs granted	95,000	1.32	285,000	0.78
RSRs vested	(75,000)	1.39	(190,000)	1.06
RSRs forfeited	(5,000)	1.34	(80,000)	1.40
Outstanding, end of the period	**805,000**	**1.15**	**790,000**	**1.16**

During the nine months ended June 30, 2021, stock-based compensation expense of $233 (2020 - $222) was recorded for the RSRs vested during the period. RSRs vest three years from the award date, in accordance with the RSR Plan.

13 Related party transactions

a) Key management personnel compensation

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

Remuneration of key management personnel of the Company during the three and nine months ended June 30, 2021 and 2020 comprises the following expenses:

	Three months ended June 30,		Nine months ended June 30,	
	2021 $	2020 $	2021 $	2020 $
Salaries, bonuses, severance and short-term employee benefits	193	238	1,265	1,229
Stock-based compensation	99	120	284	530
	292	358	1,549	1,759

(Unaudited, expressed in thousands of Canadian dollars)

b) Transactions with related parties

The Company had purchases from related parties for the three and nine months ended June 30, 2021 and 2020 in the normal course of business as shown in the table below:

	Three months ended June 30,		Nine months ended June 30,	
	2021 $	**2020 $**	**2021 $**	**2020 $**
Directors' fees	50	50	150	140
Stock-based compensation	37	78	165	263
	87	128	315	403

14 Revenues

a) Revenue breakdown for the three and nine months ended June 30, 2021 and 2020 is as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2021 $	**2020 $**	**2021 $**	**2020 $**
Product sales, net	3,791	4,389	10,985	13,766
Equipment construction contracts	2,720	810	5,332	5,106
Equipment sales	489	582	1,924	1,818
Equipment rental fees, testing fees and other	160	73	655	718
Royalties and licensing fees	191	144	674	691
	7,351	5,998	19,570	22,099

Individual customers representing over 10% of the total revenue during the nine months ended June 30, 2021 and 2020 were as follows:

	June 30, 2021		June 30, 2020	
Customer	**$**	**%**	**$**	**%**
A	2,180	11	3,224	15
Others	17,390	89	18,875	85
	19,570	100	22,099	100

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

	June 30, 2021		September 30, 2020	
Customer	**$**	**%**	**$**	**%**
X	354	18	7,392	67
Y	248	12	1,059	10
Z	234	12	-	-
Others	1,178	58	2,541	23
	2,014	100	10,992	100

(Unaudited, expressed in thousands of Canadian dollars)

15 Expenses by nature

Details of consolidated expenses by nature for direct costs, general and administration, sales and marketing, and research and development expenses for the three and nine months ended June 30, 2021 and 2020 are shown below.

	Three months ended June 30,		Nine months ended June 30,	
Details of expenses by nature	**2021 $**	**2020 $**	**2021 $**	**2020 $**
Cost of materials	3,705	3,457	11,439	10,654
Salaries, wages and employee expenses	1,846	2,155	6,490	8,672
Travel and promotional costs	275	786	1,729	3,344
Depreciation of plant and equipment	580	451	1,722	1,093
Professional services	375	441	1,201	1,647
Rent	69	112	208	321
Office and courier	70	64	218	363
Other expenses	66	34	219	519
Loss (gain) loss on disposal of equipment	8	(17)	8	(17)
Total expenses	6,994	7,483	23,234	26,596

16 Government assistance

EnWave received COVID-19 financial relief in Canada under the Canada Emergency Wage Subsidy ("CEWS") and the Canada Emergency Rent Subsidy (“CERS”) programs. The CEWS program is a wage subsidy program launched by the Canadian federal government to qualifying employers to subsidize payroll costs during the COVID-19 pandemic. The CERS program provides commercial rent and mortgage support to eligible businesses affected by COVID-19. The qualified subsidy amounts received under the programs are non-repayable. The amount of subsidy recognized from the Canadian federal government under the programs for the nine months ended June 30, 2021 was $1,033 (2020 - $nil) and has been recorded as other income on the consolidated statement of income.

17 Restructuring costs

On February 18, 2021, the Company completed a restructuring at NutraDried. As part of the NutraDried restructuring, the Company reduced its executive, administrative and production staffing by 24 positions, which resulted in severance and restructuring charges of $691 during the period. Additionally, the Company reduced or eliminated the use of certain third-party consultants and contractors.

18 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.

(Unaudited, expressed in thousands of Canadian dollars)

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, due from customers on contract and loans receivable. Prior to issuing credit, management performs due diligence reviewing 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 minimizes credit risk associated with loan receivables by performing due diligence prior to issuing loans, ensures customers are reputable companies, filing a lien on the equipment in the country the machine resides and using the machine equipment as collateral. The Company maintains a provision for credit losses relating to specific losses estimated on individual exposures. As at June 30, 2021, the Company has recorded $nil (2020 - $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 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 June 30, 2021:

	Neither past due nor impaired	Past due but not impaired		
	0 – 30 days	31 – 90 days	91 – 365 days	Over 365 days
Trade receivables	1,813	137	64	-
Due from customers on contract	460	-	-	-
Loans receivable	809	-	-	-
	3,082	137	64	-

(Unaudited, expressed in thousands of Canadian dollars)

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.

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 June 30, 2021, the Company had cash and cash equivalents of $15,381 to settle current liabilities of $5,984.

a) Financial assets maturity table:

	0 – 30 days	**31 – 90 days**	**91 – 365 days**	**Over 365 days**
Cash and cash equivalents and restricted cash	15,381	-	287	-
Trade receivables	1,919	95	-	-
Due from customers on contract	33	427	-	-
Loans receivable	41	99	377	292
Indirect taxes receivable	22	-	-	-
Income taxes receivable	-	-	960	-
	17,396	621	1,624	292

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

	0 – 30 days	**31 – 90 days**	**91 – 365 days**	**Over 365 days**
Borrowings	-	-	-	186
Trade and other payables	3,074	85	-	-
Lease liabilities	57	118	551	1,019
	3,131	203	551	1,205

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 borrowings. The Company earns interest on deposits based on current market interest rates, which during the nine months ended June 30, 2021 ranged from 0.40% to 0.45% (2020 - 1.75% to 2.10%). A 1% change in interest rates would affect the results of operations by approximately $97 (2020 - $104).

(Unaudited, expressed in thousands of Canadian dollars)

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

(ii) The Company is exposed to currency risk through contracts with customers 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 June 30, 2021, 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. At June 30, 2021 and September 30, 2020, 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 nine months ended June 30, 2021 and 2020 as follows:

Currency	**2021** **$**	**2020** **$**
US dollar	393	76

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)

19 Segmented information

The Company has assessed its operating segments to be EnWave and NutraDried according to the manner in which information is used by the Chief Operating Decision Maker. The results of operations and select accounts for each segment are shown below.

As at	**June 30, 2021**			**September 30, 2020**		
	EnWave $	**NutraDried $**	**Total $**	**EnWave $**	**NutraDried $**	**Total $**
Assets						
Trade receivables	618	1,396	2,014	996	9,996	10,992
Due from customers on contract	460	-	460	356	-	356
Inventory	2,934	2,651	5,585	2,939	4,178	7,117
Loan receivables	809	-	809	-	-	-
Plant and equipment	1,783	2,526	4,309	807	3,186	3,993
Right-of-use assets	773	781	1,554	1,018	283	1,301
Intangible assets	158	28	186	327	20	347
	7,535	7,382	14,917	6,443	17,663	24,106
Liabilities						
Trade and other payables	1,790	1,369	3,159	1,638	6,066	7,704
Customer deposits and deferred revenue	1,812	171	1,983	1,771	-	1,771
Borrowings	-	186	186	-	867	867
Lease liabilities	900	845	1,745	1,155	291	1,446
Other liability	151	-	151	256	-	256
	4,653	2,571	7,224	4,820	7,224	12,044

For the nine months ended	**June 30, 2021**			
	EnWave Canada $	**EnWave USA $**	**Elimination adjustments $**	**Total $**
Revenues – external customers	8,584	10,986	-	19,570
Revenues – other segments	1,142	-	(1,142)	-
Total revenues	9,726	10,986	(1,142)	19,570
Expenses	(10,212)	(15,077)	1,699	(23,290)
Other income	1,033	-	-	1,033
Net income (loss)	547	(4,091)	557	(2,987)

For the nine months ended	**June 30, 2020**			
	EnWave Canada $	**EnWave USA $**	**Elimination adjustments $**	**Total $**
Revenues – external customers	8,333	13,766	-	22,099
Revenues – other segments	1,133	-	(1,133)	-
Total revenues	9,466	13,766	(1,133)	22,099
Expenses	(12,516)	(15,840)	1,125	(27,231)
Other income	336	354	-	690
Net (loss) income	(2,714)	(1,720)	(8)	(4,442)

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 13 and account for approximately 44%

of the consolidated revenues. Revenues for NutraDried relate to product sales referred to in note 13 and account for approximately 56% of the consolidated revenue.

20 Subsequent event

On August 17, 2021, the letters of credit issued to a customer for US $810 (CA $1,004) were returned to the Company upon shipment of the equipment according to the equipment purchase contract terms.