



E N W Λ V E
C O R P O R A T I O N

Condensed Consolidated Interim Financial Statements

Three and nine months ended June 30, 2023 and 2022

(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 Loss

For the three and nine months ended June 30, 2023 and 2022

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

	Note	Three months ended		Nine months ended	
		June 30, 2023 \$	June 30, 2022 \$	June 30, 2023 \$	June 30, 2022 \$
Revenues	16	2,486	2,660	9,906	8,224
Direct costs		(1,767)	(1,423)	(5,894)	(4,147)
		719	1,237	4,012	4,077
Expenses					
General and administration		501	736	1,753	2,200
Sales and marketing		277	576	1,167	1,681
Research and development		408	443	1,220	1,530
Stock-based compensation	14(d)	103	308	468	920
Impairment of assets	8	315	-	315	-
Amortization of intangible assets		1	29	10	89
Other income	18	-	-	-	(147)
Finance (income) expense, net		(22)	-	(33)	(23)
Foreign exchange loss (gain)		54	(48)	86	18
		1,637	2,044	4,986	6,268
Loss from continuing operations before income taxes		(918)	(807)	(974)	(2,191)
Income tax expense					
Current		-	-	-	-
Deferred		-	-	-	-
Loss from continuing operations		(918)	(807)	(974)	(2,191)
Loss from discontinued operations	20	(1,031)	(1,208)	(5,703)	(2,463)
Loss for the period		(1,949)	(2,015)	(6,677)	(4,654)
Net loss per share:					
Continuing operations, basic and diluted		(0.01)	(0.01)	(0.01)	(0.02)
Discontinued operations, basic and diluted		(0.01)	(0.01)	(0.05)	(0.02)
		(0.02)	(0.02)	(0.06)	(0.04)
Weighted average number of common shares outstanding:					
Basic		110,695,055	110,380,055	110,695,055	110,341,602
Diluted		110,695,055	110,380,055	110,695,055	110,341,602

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 and nine months ended June 30, 2023 and 2022

(Unaudited, expressed in thousands of Canadian dollars)

	Three months ended		Nine months ended	
	June 30, 2023 \$	June 30, 2022 \$	June 30, 2023 \$	June 30, 2022 \$
Loss for the period	(1,949)	(2,015)	(6,677)	(4,654)
Other comprehensive loss				
Items that may be subsequently reclassified to profit or loss				
Foreign exchange translation (loss) gain	<u>(10)</u>	<u>178</u>	<u>(81)</u>	<u>60</u>
Total comprehensive loss for the period	<u>(1,959)</u>	<u>(1,837)</u>	<u>(6,758)</u>	<u>(4,594)</u>

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, 2023 and September 30, 2022

(Unaudited, expressed in thousands of Canadian dollars)

	Note	June 30, 2023 \$	September 30, 2022 \$
Assets			
Current assets			
Cash and cash equivalents		4,471	6,199
Restricted cash	4	290	614
Trade receivables	6	1,630	1,980
Due from customers on contract	5	239	852
Loans receivable, current	9	820	515
Inventory	8	3,457	6,622
Prepays and other receivables	7	339	678
Income taxes receivable		29	540
		<u>11,275</u>	<u>18,000</u>
Non-current assets			
Loans receivable, non-current	9	642	268
Deposits and other receivables		56	51
Plant and equipment		2,425	5,539
Right-of-use assets	12(a)	1,271	1,968
Intangible assets		2	21
		<u>4,396</u>	<u>7,847</u>
Total assets		<u>15,671</u>	<u>25,847</u>
Liabilities			
Current liabilities			
Loan payable	10	-	4
Trade and other payables	11	2,723	4,476
Customer deposits and deferred revenue	5	87	1,311
Current portion of lease liabilities	12(b)	472	820
Current portion of other liability		-	5
		<u>3,282</u>	<u>6,616</u>
Non-current liabilities			
Loan payable	10	-	220
Long-term portion of lease liabilities	12(b)	1,051	1,383
		<u>1,051</u>	<u>1,603</u>
Total liabilities		<u>4,333</u>	<u>8,219</u>
Equity			
Share capital	14(b)	79,812	79,559
Warrants	14(c)	-	1,040
Contributed surplus		12,334	11,079
Foreign currency translation reserve		544	625
Deficit		(81,352)	(74,675)
Total equity		<u>11,338</u>	<u>17,628</u>
Total liabilities and equity		<u>15,671</u>	<u>25,847</u>
Contingencies and commitments			
Subsequent event	13		
	22		

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, 2023 and 2022

(Unaudited, expressed in thousands of Canadian dollars)

	Share capital		Warrants	Contributed surplus	Foreign currency translation reserve	Deficit	Total
	Number	Value					
		\$	\$	\$	\$	\$	\$
Balance – September 30, 2021	110,205,055	79,272	1,040	10,234	190	(67,748)	22,988
Net loss for the period	-	-	-	-	-	(4,654)	(4,654)
Effects of foreign currency translation	-	-	-	-	60	-	60
Shares repurchased and cancelled	-	-	-	-	-	-	-
Shares issued on exercise of stock options	-	-	-	-	-	-	-
Shares issued with restricted share rights	175,000	225	-	(225)	-	-	-
Restricted share rights	-	-	-	151	-	-	151
Stock-based compensation	-	-	-	769	-	-	769
Balance – June 30, 2022	110,380,055	79,497	1,040	10,929	250	(72,402)	19,314
Balance – September 30, 2022	110,440,055	79,559	1,040	11,079	625	(74,675)	17,628
Net loss for the period	-	-	-	-	-	(6,677)	(6,677)
Effects of foreign currency translation	-	-	-	-	(81)	-	(81)
Expiry of warrants	-	-	(1,040)	1,040	-	-	-
Shares repurchased and cancelled	-	-	-	-	-	-	-
Shares issued on exercise of stock options	-	-	-	-	-	-	-
Shares issued with restricted share rights	255,000	253	-	(253)	-	-	-
Restricted share rights	-	-	-	136	-	-	136
Stock-based compensation	-	-	-	332	-	-	332
Balance – June 30, 2023	110,695,055	79,812	-	12,334	544	(81,352)	11,338

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, 2023 and 2022

(Unaudited, expressed in thousands of Canadian dollars)

	Note	Nine months ended June 30,	
		2023 \$	2022 \$
Cash flows generated from (used in) operating activities			
Net loss for the period from continuing operations		(974)	(2,191)
Items not affecting cash			
Depreciation and amortization		841	769
Stock-based compensation	14(d)	468	920
Impairment of assets		315	-
Finance(income) expense, net		(33)	(23)
Foreign exchange loss		86	18
		<u>703</u>	<u>(507)</u>
Changes in non-cash working capital			
Increase in restricted cash		325	(304)
Trade receivables		(327)	(129)
Prepays and other receivables		156	237
Loans receivable		(727)	(907)
Inventory		310	243
Trade and other payables		(757)	(686)
Security deposits received		(378)	445
Due from customers on contract and deferred revenue		(652)	152
Net cash used in from operating activities before income taxes		<u>(1,347)</u>	<u>(1,456)</u>
Net cash used in operating activities from discontinued operations		<u>(881)</u>	<u>(671)</u>
Net cash used in operating activities		<u>(2,228)</u>	<u>(2,127)</u>
Cash flows generated from (used in) investing activities			
Acquisition of plant and equipment		(34)	(1,630)
Acquisition of intangible assets		-	(2)
Finance income received		49	102
Net cash generated from (used in) investing activities from continuing operations		<u>15</u>	<u>(1,530)</u>
Net cash generated from (used in) investing activities from discontinued operations		<u>1,325</u>	<u>(684)</u>
Net cash generated from (used in) investing activities		<u>1,340</u>	<u>(2,214)</u>
Cash flows generated from (used in) financing activities			
Payment of lease principal liabilities	12(b)	(277)	(247)
Payment of lease interest	12(b)	(99)	(76)
Payment received from finance leases		8	22
Payment of other liability		(4)	(97)
Net cash used in financing activities from continuing operations		<u>(372)</u>	<u>(398)</u>
Net cash used in financing activities from discontinued operations		<u>(483)</u>	<u>(304)</u>
Net cash used in financing activities		<u>(855)</u>	<u>(702)</u>
Effect of foreign exchange translation on cash		15	6
Decrease in cash and cash equivalents - continuing operations		(1,689)	(3,377)
Decrease in cash and cash equivalents - discontinued operations		(39)	(1,659)
Cash and cash equivalents - Beginning of period		6,199	11,790
Cash and cash equivalents - End of period		4,471	6,754
Non-cash transactions			
Acquisition of plant and equipment through accounts payable		(25)	(47)
Purchase of inventory through accounts payable		(164)	574

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

EnWave Corporation

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited, expressed in thousands of Canadian dollars)

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 licensing of its intellectual property through royalty-bearing agreements and the design, construction, marketing and sales of vacuum-microwave dehydration machinery for the food, cannabis and biomaterial industries.

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, EnWave USA Corporation, is an incorporated subsidiary registered in the State of Washington.

NutraDried Food Company, LLC (“NutraDried”), is a wholly owned subsidiary of EnWave USA Corporation and a Limited Liability Corporation registered in Washington State. NutraDried manufactured, marketed and sold certain dehydrated food products manufactured using EnWave’s proprietary technology under the Company’s Moon Cheese® trademark. NutraDried is in the process of an orderly wind-down and its material capital assets have been sold as at June 30, 2023 as outlined below in Note 2 and Note 20.

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, 2022. 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, 2022. Certain prior period amounts have been reclassified to conform with the current period’s presentation.

These interim financial statements were approved for issuance by the Board of Directors for issue on August 24, 2023.

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 that 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.

EnWave Corporation

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited, expressed in thousands of Canadian dollars)

Significant estimates and judgments used in the preparation of the consolidated financial statements are described in the annual audited consolidated financial statements for the year ended September 30, 2022, with the exception of new significant accounting estimates and judgements noted below.

Discontinued operations

Discontinued operations are reported when a component of the Company, representing a separate major line of business or geographical area of operations with clearly distinguishable cash flows, has been disposed of or is held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. Discontinued operations are reported as a separate element on the consolidated statements of loss and comprehensive loss for both the current and comparative periods.

3 Significant accounting policies

The accounting policies adopted are consistent with the September 30, 2022 annual consolidated financial statements and the unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's 2022 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 with an uncertain settlement date 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, 2024 and is to be applied retrospectively, with earlier application permitted. The Company has evaluated the implications of adopting the amendment and does not believe there to be any significant impact on the Company's consolidated financial statements.

4 Cash and cash equivalents and restricted cash

a) Cash and cash equivalents

As at June 30, 2023, the Company had \$4,471 (September 30, 2022 - \$6,199) in cash funds held in current accounts.

b) Restricted cash

As at June 30, 2023, the Company had \$290 (September 30, 2022 - \$614) restricted cash deposit held as collateral for the Company's foreign exchange contracts and company credit card.

EnWave Corporation

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited, expressed in thousands of Canadian dollars)

5 Contract assets and contract liabilities

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

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

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

	June 30, 2023 \$	September 30, 2022 \$
Due from customers on contract	239	852
Customer deposits and deferred revenues	(87)	(1,311)
	<u>152</u>	<u>(459)</u>

During the nine months ended June 30, 2023, the Company recognized revenue from equipment sales and construction contracts of \$1,270 (2022 - \$1,144) that was included as deferred revenue at the beginning of the period.

6 Trade receivables

	June 30, 2023 \$	September 30, 2022 \$
Trade receivables	1,752	2028
Less: Provision for expected credit losses	(122)	(48)
	<u>1,630</u>	<u>1,980</u>

Included in trade receivables is \$527 related to NutraDried, see Note 20.

7 Prepaids and other receivables

	June 30, 2023 \$	September 30, 2022 \$
Prepaid expenses	211	586
Indirect tax receivable	97	66
Other receivables	31	26
Lease receivables	-	-
	<u>339</u>	<u>678</u>

EnWave Corporation

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited, expressed in thousands of Canadian dollars)

8 Inventory

	June 30, 2023 \$	September 30, 2022 \$
Machine parts and work-in-progress	3,457	3,550
Food products	-	2,470
Packaging supplies	-	602
	<u>3,457</u>	<u>6,622</u>

During the nine months ended June 30, 2023, the Company recognized \$190 (2022 - \$nil) in inventory impairment related to machine parts and work-in-progress and \$125 in plant and equipment impairment (2022 - \$nil) related to a 10kW portable trailer. An inventory impairment of \$624 (2022 - \$nil) was recognized related to food products and packaging supplies associated with discontinued operations, see Note 20.

9 Loans receivable

	June 30, 2023 \$	September 30, 2022 \$
Current	820	515
Non-current	642	268
	<u>1,462</u>	<u>783</u>

The Company provides equipment finance loans to certain customers to finance equipment purchased from the Company. The loans receivable bear interest at a weighted average rate of 11%, have terms ranging from 2 to 36 months and are amortized with monthly blended payments of interest and principal. The loans receivable are measured at amortized cost using the effective interest method and are secured by the underlying equipment purchased by the customer.

10 Loan Payable

	June 30, 2023 \$	September 30, 2022 \$
Current	-	4
Non-current	-	220
Total loan payable	<u>-</u>	<u>224</u>

On June 15, 2020, NutraDried received proceeds from an Economic Injury Disaster Loan ("EIDL") with the U.S. Small Business Administration of \$203 (US\$150). The loan is amortized over 30 years and accrues interest at the rate of 3.75% annually. The EIDL is secured by all tangible and intangible personal property including, but not limited to, inventory and equipment. The Company repaid the EIDL on March 28, 2023 as part of the NutraDried wind-down, see Note 20.

EnWave Corporation

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited, expressed in thousands of Canadian dollars)

11 Trade and other payables

	June 30, 2023 \$	September 30, 2022 \$
Trade payables	538	1,390
Accrued liabilities	992	1,304
Personnel related accruals	793	1,059
Security deposits	94	472
Provision for warranty	306	251
	<u>2,723</u>	<u>4,476</u>

12 Lease liabilities

- a) The following is the carrying amounts of right-of-use assets recognized and the movements during the nine months ended June 30, 2023 and 2022:

Leased buildings:	\$
Balance, September 30, 2021	1,405
Lease modifications	1,273
Depreciation expense	(754)
Currency translation adjustments	44
Balance, September 30, 2022	<u>1,968</u>
Lease modifications	-
Disposal	(225)
Depreciation expense	(485)
Currency translation adjustments	13
Balance, June 30, 2023	<u>1,271</u>

- b) The following is a continuity schedule of lease liabilities for the nine months ended June 30, 2023 and 2022:

	\$
Balance, September 30, 2021	1,592
Lease modifications	1,273
Lease payments	(840)
Interest expense on lease liabilities	147
Changes due to foreign exchange rates	31
Balance, September 30, 2022	<u>2,203</u>
Lease modifications	-
Lease disposal	(145)
Lease payments	(635)
Interest expense on lease liabilities	110
Changes due to foreign exchange rates	(10)
Balance, June 30, 2023	<u>1,523</u>
Current	472
Non-current	<u>1,051</u>
	<u>1,523</u>

EnWave Corporation

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited, expressed in thousands of Canadian dollars)

As at June 30, 2023, the lease liabilities are payable on an undiscounted basis as follows:

	June 30, 2023
	\$
Less than one year	575
One to five years	1,209
More than five years	-
	<u>1,784</u>

13 Contingencies and commitments

a) Claims and litigation

On September 20, 2021, a civil counterclaim commenced against the Company in the Supreme Court of British Columbia by certain former directors and officers of the Company. The counterclaim was filed in response to a civil claim filed by the Company against the former directors and officers. The counterclaim alleges breach of contract and breach of privacy with respect to the cessation of employment of one of the former directors. The Company believes the action to be without merit and intends to defend the counterclaim. No provision has been recognized as of June 30, 2023.

14 Share capital

a) Authorized: unlimited number of voting common shares without par value.
Issued and outstanding: 110,695,055.

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, 2021	110,205,055	79,272
Shares issued on vesting of restricted share rights	235,000	287
Balance – September 30, 2022	110,440,055	79,559
Shares issued on vesting of restricted share rights	255,000	253
Balance – June 30, 2023	110,695,055	79,812

- i) On November 21, 2022, 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 10,798,644 common shares, representing approximately 10% of the public float as of November 21, 2022, but no more than 2,208,801 in any 30-day period. The NCIB period commenced on November 24, 2022 and will end on the earlier of November 23, 2023, and the completion of purchases under the NCIB. All repurchased shares will be cancelled. During the nine months ended June 30, 2023, the Company did not purchase nor cancel any common shares.

EnWave Corporation

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited, expressed in thousands of Canadian dollars)

c) Warrants

The continuity of share purchase warrants is as follows:

	Number of warrants	Weighted average exercise price \$	Fair value at grant date \$
Balance – September 30, 2021	5,012,202	1.50	0.27
Balance – September 30, 2022	5,012,202	1.50	0.27
Expired:			
Investor's Warrants	(5,012,202)	1.50	0.27
Balance – June 30, 2023 (i)	-	-	-

- i) Each Investor Warrant issued was 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 of 1.63%, dividend yield %, and expected life of 5.0 years.

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 TSXV.

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

EnWave Corporation

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited, expressed in thousands of Canadian dollars)

The changes in options for the nine months ended June 30, 2023 and 2022 were as follows:

	June 30, 2023		June 30, 2022	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding, beginning of the period	8,328,267	1.33	7,160,667	1.46
Options granted	1,969,648	0.63	1,895,000	0.90
Options exercised	-	-	-	0.00
Options cancelled	(2,438,667)	1.27	-	-
Options expired	(2,396,267)	1.14	(612,400)	1.24
Outstanding, end of the period	5,462,981	1.20	8,443,267	1.34
Exercisable, end of the period	3,586,666	1.49	6,554,266	1.44

The weighted average fair value of options granted during the nine months ended June 30, 2023, was \$0.09 per option (2022 - \$0.43).

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, 2023 and 2022:

	Nine months ended June 30,	
	2023	2022
Risk-free interest rate	2.05%	1.45%
Expected life	2.04 years	3.64 years
Estimated volatility	38%	64%
Forfeiture rate	1.25%	2.20%
Dividend rate	0.00%	0.00%

On June 23, 2023, the Company cancelled 2,438,667 non-insider employee share options and replaced them with 869,648 employee share options ("Traded Options") priced at \$0.75 for a five-year term using the Black-Scholes model on a value for value basis with no incremental increase in fair value. The cancellation of unvested options was immaterial and was expensed during the period to stock-based compensation.

Stock options outstanding as at June 30, 2023 have the following expiry date and exercise prices:

Year of expiry	Exercise price per share \$	Number of options
2023	1.17 - 1.34	875,000
2024	1.37 - 2.19	1,470,000
2025	1.06 - 1.25	600,000
2026	0.90	535,000
2027	0.44 - 0.67	313,333
2028	0.27 - 0.75	1,669,648
		5,462,981

EnWave Corporation

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited, expressed in thousands of Canadian dollars)

During the nine months ended June 30, 2023, the Company recorded stock-based compensation expense of \$468 (2022 - \$920), 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

The Company has reserved up to a maximum of 1,895,000 common shares to be issued as RSRs under its restricted share rights plan ("RSR Plan"). 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 nine months ended June 30, 2023 and 2022 were as follows:

	June 30, 2023		June 30, 2022	
	Number of RSRs	Weighted average grant date fair value \$	Number of RSRs	Weighted average grant date fair value \$
Outstanding, beginning of period	755,000	1.16	715,000	1.16
RSRs granted	-	-	275,000	0.90
RSRs vested	(255,000)	0.99	(175,000)	1.29
RSRs forfeited	-	-	-	-
Outstanding, end of period	500,000	1.04	815,000	1.02

During the nine months ended June 30, 2023, stock-based compensation expense of \$136 (2022 - \$151) was recorded for the RSRs vested during the period. RSRs vest three years from the award date, in accordance with the RSR Plan.

15 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, 2023 and 2022 comprises the following expenses:

	Three months ended June 30,		Nine months ended June 30,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Salaries, bonuses, and short-term employee benefits	148	276	938	1,514
Stock-based compensation	59	163	306	492
	207	439	1,244	2,006

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b) Transactions with related parties

The Company had transactions with related parties for the three and nine months ended June 30, 2023 and 2022 in the normal course of business as shown in the table below:

	Three months ended June 30,		Nine months ended June 30,	
	2023 \$	2022 \$	2023 \$	2022 \$
Directors' fees	20	50	60	150
Stock-based compensation	11	19	38	64
	<u>31</u>	<u>69</u>	<u>98</u>	<u>214</u>

16 Revenues

a) Revenue breakdown for the three and nine months ended June 30, 2023 and 2022 is as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2023 \$	2022 \$	2023 \$	2022 \$
Equipment construction contracts	1,431	1,420	5,662	5,065
Equipment sales	463	733	2,363	1,586
Royalties and licensing fees	394	301	1,085	1,051
Equipment rental fees, testing fees and other	198	206	796	522
	<u>2,486</u>	<u>2,660</u>	<u>9,906</u>	<u>8,224</u>

Individual customers representing over 10% of the total revenue during the nine months ended June 30, 2023 and 2022 were as follows:

Customer	June 30, 2023		June 30, 2022	
	\$	%	\$	%
A	1,863	19	2,139	26
B	1,481	15	1,653	20
C	1,270	13	-	-
D	1,164	12		
E	994	10		
Others	3,134	31	4,432	54
	<u>9,906</u>	<u>100</u>	<u>8,224</u>	<u>100</u>

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

Customer	June 30, 2023		September 30, 2022	
	\$	%	\$	%
X	403	25	348	18
Y	-	-	281	14
Others	1,227	75	1,351	68
	<u>1,630</u>	<u>100</u>	<u>1,980</u>	<u>100</u>

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17 Expenses by nature

Details of consolidated expenses by nature for direct costs, general and administration, sales and marketing, and research and development expenses for the three and nine months ended June 30, 2023 and 2022 are shown below:

Details of expenses by nature	Three months ended June 30,		Nine months ended June 30,	
	2023 \$	2022 \$	2023 \$	2022 \$
Cost of materials	1,093	735	3,764	2,440
Salaries, wages and employee expenses	1,098	1,381	3,611	4,135
Commissions, travel and promotional costs	112	239	387	602
Depreciation of plant and equipment	275	294	831	680
Professional services	206	283	679	1,055
Other expenses	51	85	253	230
Office and courier	58	62	216	225
Facility expenses	60	51	171	144
Bad debt	-	48	122	48
Total expenses	2,953	3,178	10,034	9,558

18 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, 2023 was \$nil (2021 - \$147) and has been recorded as other income on the condensed consolidated interim statement of loss.

19 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 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, due from customers on contract and loans receivable. The Company mitigates its exposure to credit loss by maintaining the majority of 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

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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, ensuring 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 an individual exposure. As at June 30, 2023, the Company has recorded a \$122 (2022 - \$48) provision for expected credit losses.

The Company is exposed to credit risk in trade receivables by way of concentration of credit with a small number of customers. The Company determines its concentration of credit risk if the balance is more than 10% of total revenue or trade receivables. The Company expects these customers to remain as large customers in the future. Significant change in these customer relationships could materially impact the Company's future financial results. The Company seeks and ordinarily obtains progress advances in respect of its construction contracts. The maximum exposure to loss arising from trade receivables is equal to their total carrying amounts.

The Company transacts with a number of Canadian chartered banks and other brokerages. Due to the creditworthiness of its counterparties, the Company regards all changes in fair value of foreign exchange derivatives as arising only from changes in market factors, including foreign exchange rates. The Company monitors the exposure to any single counterparty along with its financial position. If it is determined that a counterparty has become materially weaker, the Company will work to reduce its credit exposure to that counterparty.

The following table provides information regarding the aging of receivables as at June 30, 2023:

	Neither past due nor impaired	Past due but not impaired		
	0 – 30 days	31 – 90 days	91 – 365 days	Over 365 days
Trade receivables	1,003	509	118	-
Due from customers on contract	239	-	-	-
Loans receivable	1,462	-	-	-
Indirect tax receivable	58	10	32	-
Income tax receivable	-	-	29	-
	<u>2,762</u>	<u>519</u>	<u>179</u>	<u>-</u>

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.

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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. As at June 30, 2023, the Company held no foreign exchange derivatives.

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.

a) Financial assets maturity table:

	0 – 30 days	31 – 90 days	91 – 365 days	Over 365 days
Cash and cash equivalents and restricted cash	4,471	-	290	-
Trade receivables	1,630	-	-	-
Due from customers on contract	-	138	101	-
Loans receivable	148	136	536	642
Indirect taxes receivable	68	-	32	-
Income taxes receivable	-	-	29	-
	6,317	274	988	642

b) Financial liabilities maturity table:

	0 – 30 days	31 – 90 days	91- 365 days	Over 365 days
Trade and other payables	2,678	45	-	-
Customer deposits and deferred revenue	87	-	-	-
Lease liabilities	46	94	332	1,051
	2,811	139	332	1,051

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 loan payable. The Company earns interest on deposits based on current market interest rates, which during the nine months ended June 30, 2023 ranged from 3.70% to 4.65% (2022 - 0.65% to 2.55%). A 1% change in interest rates would affect the results of operations by approximately \$45 (2022 - \$54).

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

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(ii) the Company is exposed to currency risk through customers with sales contracts denominated in US dollars.

A significant change in the currency exchange rate of the Canadian dollar relative to the US dollar could have an effect on the Company's results of operations. As at June 30, 2023, 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 June 30, 2023, 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 from continuing operations for the nine months ended June 30, 2023 and 2022 as follows:

Currency	2023 \$	2022 \$
US dollar	807	418

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

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

20 Discontinued Operations

During the nine months ended June 30, 2023, management commenced an orderly wind-down and value maximization process for NutraDried and on March 14, 2023, agreed to sell certain assets, including trademarks, auxiliary production equipment and select saleable inventory, to Creations Foods U.S. Incorporated ("Creations"), for consideration of \$1,608 USD. As of June 30, 2023, \$304 USD remains outstanding and is recognized in trade receivables, with the remainder to be paid in installments and due within 270 days from closing.

Additionally, Creations purchased a 100kW REV™ Machine from EnWave Canada, installed at the NutraDried facility, for consideration of \$1,000 USD of which \$935 USD has been recognized in revenue for continuous operations for the nine months ended June 30, 2023. As of June 30, 2023, \$704 USD is outstanding, \$653

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USD is recognized in loans receivable paid monthly over a 25 month term and the remaining revenue of \$51 USD will be recognized as interest income over the 25 month term.

A write down of \$632, \$388 and \$60 was taken on NutraDried inventory, plant and equipment and right-of-use assets respectively and has been recognized in discontinued operations.

The results of operations of NutraDried are presented as discontinued operations for the nine months ended June 30, 2023:

	Nine months ended	
	June 30, 2023 \$	June 30, 2022 \$
Revenues	5,172	10,505
Cost of sales	(5,974)	(8,334)
Inventory write down	(632)	-
	(1,434)	2,171
Expenses		
General and administration	(715)	(975)
Sales and marketing	(1,033)	(2,392)
Depreciation	(871)	(1,060)
Restructuring costs	(910)	-
Professional Fees	(292)	(175)
	(5,255)	(2,431)
Loss before other items		
Other items:		
Loss on the sale of assets	(388)	(32)
Impairment of right of use asset	(60)	-
	(448)	(32)
Total other items		
Loss from discontinued operations	(5,703)	(2,463)

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Cash flows from discontinued operations are as follows:

	Nine months ended June 30,	
	2023	2022
	\$	\$
Cash flows generated from (used in) operating activities from discontinued operations		
Net loss for the period from discontinued operations	(5,703)	(2,463)
Items not affecting cash		
Depreciation and amortization	871	1,060
Inventory write off	632	-
Loss on sale of assets	448	32
Other	15	42
	<u>(3,737)</u>	<u>(1,329)</u>
Changes in non-cash working capital		
Trade receivables	612	308
Inventory	1,952	163
Trade and other payables	(348)	98
Income taxes receivable	503	-
Other	137	89
	<u>(881)</u>	<u>(671)</u>
Net cash used in discontinued operations		
Cash flows used in investing activities		
Proceeds from sale of plant and equipment	1,358	44
Acquisition of plant and equipment	(33)	(730)
Proceeds of sale of intangible assets	-	2
Net cash generated from (used in) investing activities from discontinued operations	<u>1,325</u>	<u>(684)</u>
Cash flows used in financing activities		
Repayment of debt	(223)	-
Payment of lease principal liabilities	(249)	(276)
Payment of lease interest	(11)	(28)
Net cash used in financing activities from discontinued operations	<u>(483)</u>	<u>(304)</u>
Decrease in cash and cash equivalents-discontinued operations	<u>(39)</u>	<u>(1,659)</u>

21 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 "CODM"). The Company has determined that the Chief Executive Officer of the parent company is its CODM. The results of operations and the assets for each segment are shown below:

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As at	June 30, 2023			September 30, 2022		
	EnWave \$	NutraDried \$	Total \$	EnWave \$	NutraDried \$	Total \$
Assets						
Trade receivables	1,103	527	1,630	813	1,167	1,980
Due from customers on contract	239	-	239	852	-	852
Inventory	3,457	-	3,457	3,550	3,072	6,622
Loans receivable	1,462	-	1,462	783	-	783
Plant and equipment	2,425	-	2,425	3,252	2,287	5,539
Right-of-use assets	1,271	-	1,271	1,584	384	1,968
Intangible assets	2	-	2	13	8	21
	<u>9,959</u>	<u>527</u>	<u>10,486</u>	<u>10,847</u>	<u>6,918</u>	<u>17,765</u>
Liabilities						
Trade and other payables	1,661	1,062	2,723	2,621	1,855	4,476
Customer deposits and deferred revenue	87	-	87	1,311	-	1,311
Loan payable	-	-	-	-	224	224
Lease liabilities	1,488	35	1,523	1,764	439	2,203
Other liability	-	-	-	5	-	5
	<u>3,236</u>	<u>1,097</u>	<u>4,333</u>	<u>5,701</u>	<u>2,518</u>	<u>8,219</u>

22 Subsequent events

On July 25, 2023, the Company was approved for a cost-shared funding project through the Food Processing Growth Fund, which will fund up to 75% of approved project costs to a maximum contribution in the amount of \$750. The funding will be used for capital additions to the REVworx™ facility. Project funding and spending will be received and incurred over the next 18 months.

In August 2023, NutraDried received correspondence from the Internal Revenue Service (“IRS”) advising a \$497 USD tax refund, of an estimated total potential \$1,183 USD tax refund, would be issued to NutraDried in Q4 2023. The refund is for the Employee Retention Tax Credit (the “ERTC”) which is a refundable tax credit from the United States government for businesses that were affected during the COVID-19 pandemic. As of the date of this report, there has not been any additional correspondence from the IRS concerning the remaining tax refund and there is no certainty it will be issued.