ENWAVE

CORPORATION

Condensed Consolidated Interim Financial Statements

Three months ended December 31, 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 Loss

For the three months ended December 31, 2021 and 2020

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

	Note	Three months ended December 31, 2021 $	2020 $
Revenues	15	**6,297**	7,533
Direct costs		**3,581**	5,835
		2,716	1,698
Expenses			
General and administration		**1,118**	1,126
Sales and marketing		**1,132**	1,521
Research and development		**577**	569
Stock-based compensation		**234**	254
Amortization of intangible assets		**35**	63
Other income	17	**(147)**	(325)
Foreign exchange loss		**19**	227
Finance expense, net		**1**	4
		2,969	3,439
Loss before income taxes		**(253)**	(1,741)
Income tax (recovery) expense			
Current		**-**	(390)
Deferred		**-**	20
Net loss for the period		**(253)**	(1,371)
Net loss per common share			
Basic and diluted		**(0.00)**	(0.01)
Weighted average number of shares outstanding			
Basic and diluted		**110,227,501**	111,451,972

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

EnWave Corporation

Condensed Consolidated Interim Statements of Comprehensive Loss

For the three months ended December 31, 2021 and 2020

(Unaudited, expressed in thousands of Canadian dollars)

	Three months ended December 31,	
	2021	2020
	$	$
Net loss for the period	**(253)**	(1,371)
Other comprehensive income		
Items that may be subsequently reclassified to profit or loss		
Foreign exchange translation loss	**(26)**	(316)
Total comprehensive loss for the period	**(279)**	(1,687)

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 December 31, 2021 and September 30, 2021

(Unaudited, expressed in thousands of Canadian dollars)

	Note	December 31, 2021 $	September 30, 2021 $
Assets			
Current assets			
Cash and cash equivalents		**8,435**	11,790
Restricted cash	4	**587**	288
Trade receivables		**3,262**	2,130
Due from customers on contract	5	**2,194**	1,535
Loans receivable, current	8	**627**	847
Inventory	7	**6,368**	5,722
Prepaids and other receivables	6	**812**	833
Income taxes receivable		**982**	986
		23,267	24,131
Non-current assets			
Loans receivable, non-current	8	**226**	285
Deposits and other receivables		**54**	75
Plant and equipment		**5,038**	4,538
Right-of-use assets		**1,231**	1,405
Intangible assets		**174**	207
		6,723	6,510
Total assets		**29,990**	30,641
Liabilities			
Current liabilities			
Borrowings	9	**634**	-
Trade and other payables	10	**4,001**	4,421
Customer deposits and deferred revenue	5	**721**	1,323
Lease liabilities	11	**768**	753
Other liability	12(b)	**96**	121
		6,220	6,618
Non-current liabilities			
Borrowings	9	**190**	191
Lease liabilities	11	**637**	839
Other liability	12(b)	**-**	5
		827	1,035
Total liabilities		**7,047**	7,653
Equity			
Share capital	13(b)	**79,497**	79,272
Warrants	13(c)	**1,040**	1,040
Contributed surplus		**10,243**	10,234
Foreign currency translation reserve		**164**	190
Deficit		**(68,001)**	(67,748)
Total equity		**22,943**	22,988
Total liabilities and equity		**29,990**	30,641
Contingencies and commitments	12(a)		

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

EnWave Corporation

Condensed Consolidated Interim Statements of Changes in Equity

For the three months ended December 31, 2021 and 2020

(Unaudited, expressed in thousands of Canadian dollars)

	Share capital						
	Number	Value $	Warrants $	Contributed surplus $	Foreign currency translation reserve $	Deficit $	Total equity $
Balance – September 30, 2020	111,409,755	79,840	1,641	9,151	775	(63,056)	28,351
Net loss for the period	-	-	-	-	-	(1,371)	(1,371)
Effects of foreign currency translation	-	-	-	-	(316)	-	(316)
Expiry of warrants	-	-	(601)	601	-	-	-
Shares issued on exercise of stock options	107,000	122	-	(29)	-	-	93
Shares issued with restricted share rights	60,000	83	-	(83)	-	-	-
Restricted share rights	-	-	-	97	-	-	97
Stock-based compensation	-	-	-	157	-	-	157
Balance – December 31, 2020	111,576,755	80,045	1,040	9,894	459	(64,427)	27,011
Balance – September 30, 2021	110,205,055	79,272	1,040	10,234	190	(67,748)	22,988
Net loss for the period	-	-	-	-	-	(253)	(253)
Effects of foreign currency translation	-	-	-	-	(26)	-	(26)
Expiry of warrants	-	-	-	-	-	-	-
Shares issued on exercise of stock options	-	-	-	-	-	-	-
Shares issued with restricted share rights	175,000	225	-	(225)	-	-	-
Restricted share rights	-	-	-	49	-	-	49
Stock-based compensation	-	-	-	185	-	-	185
Balance – December 31, 2021	111,380,055	79,497	1,040	10,243	164	(68,001)	22,943

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

EnWave Corporation

Condensed Consolidated Interim Statements of Cash Flows

For the three months ended December 31, 2021 and 2020

(Unaudited, expressed in thousands of Canadian dollars)

	Note	Three months ended December 31, 2021 $	2020 $
Cash flows generated from (used in) operating activities			
Net loss for the period		**(253)**	(1,371)
Items not affecting cash			
Depreciation and amortization		**447**	670
Stock-based compensation	13(d)	**234**	254
Gain on disposal of assets		**-**	(4)
Finance expense, net		**1**	4
Income tax recovery		**-**	(370)
Foreign exchange loss		**19**	227
		448	(590)
Changes in non-cash working capital			
Restricted cash		**(299)**	-
Trade receivables		**(1,137)**	8,913
Prepaids and other receivables		**70**	(100)
Loans receivable		**265**	(453)
Inventory		**(342)**	590
Trade and other payables		**(1,101)**	(3,917)
Due from customers on contract and deferred revenue		**(1,278)**	(215)
Net cash (used) generated from operating activities		**(3,374)**	4,228
Cash flows used in investing activities			
Purchase of plant and equipment		**(465)**	(689)
Proceeds from disposition of plant and equipment		**1**	34
Purchase of intangible assets		**(2)**	-
Finance income received		**32**	40
Net cash used in investing activities		**(434)**	(615)
Cash flows generated from (used in) financing activities			
Proceeds from exercise of stock options	13(d)	**-**	93
Proceeds (repayment) from line of credit		**630**	(652)
Payment of lease principal liabilities	11	**(183)**	(124)
Payment of lease interest	11	**(26)**	(38)
Payment received from finance leases		**37**	8
Payment of other liability	12(b)	**(32)**	(32)
Net cash generated from (used in) financing activities		**426**	(745)
Effect of foreign exchange translation on cash		**27**	(179)
Increase (decrease) in cash and cash equivalents		**(3,355)**	2,689
Cash and cash equivalents - Beginning of period		**11,790**	14,712
Cash and cash equivalents - End of period		**8,435**	17,401
Non-cash transactions			
Purchase of plant and equipment through accounts payable		**404**	102
Purchase of inventory through accounts payable		**196**	(70)

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 licensing of its intellectual property through royalty-bearing agreements and the design, construction, marketing and sales of vacuum-microwave machinery for the food, cannabis and biomaterial dehydration 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, NutraDried Food Company, LLC ("NutraDried"), is a Limited Liability Corporation registered in Washington State. NutraDried manufactures, markets and sells certain dehydrated food products manufactured using EnWave's proprietary technology primarily, a shelf-stable cheese snack product marketed under the Company's Moon Cheese® trademark.

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, 2021. 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, 2021.

These interim financial statements were approved for issuance by the Board of Directors for issue on February 24, 2022.

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.

Revenue recognition

The revenue recognition policy for customized equipment sales contracts is the percentage-of-completion method. The stage of completion is measured by reference to the actual contract costs incurred as a percentage of total estimated costs for each contract. Determining the estimated contract cost is considered a significant accounting estimate that requires detailed knowledge of the costs to be incurred based on the required design customizations. 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 $524 (2020 - $269).

Impairment of inventory

The Company measures inventory at the lower of cost and net realizable value, and in the event cost exceeds net realizable value, 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 it will 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 estimates when 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 set period of time. 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

The accounting policies adopted are consistent with the September 30, 2021 annual consolidated financial statements and the unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's 2021 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 Cash and cash equivalents and restricted cash

a) Cash and cash equivalents

As at December 31, 2021, the Company had $8,435 (September 30, 2021 - $11,790) in cash funds held in current accounts.

b) Restricted cash

As at December 31, 2021, the Company had a $587 (September 30, 2021 - $288) restricted cash deposit held as collateral for the Company’s letter of credit facility, foreign exchange contracts and company credit card.

5 Contract assets and contract liabilities

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

(Unaudited, expressed in thousands of Canadian dollars)

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

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

	December 31, 2021 $	September 30, 2021 $
Due from customers on contract	2,194	1,535
Customer deposits and deferred revenues	(721)	(1,323)
	1,473	212

During the three months ended December 31, 2021, the Company recognized revenue from equipment sales and construction contracts of $843 (December 31, 2020 - $833) that was included as deferred revenue at the beginning of the period.

6 Prepaids and other receivables

	December 31, 2021 $	September 30, 2021 $
Prepaid expenses	719	708
Indirect tax receivable	36	95
Other receivables	27	-
Lease receivables	30	30
	812	833

7 Inventory

	December 31, 2021 $	September 30, 2021 $
Machine parts and work-in-progress	2,649	3,060
Food products	3,207	2,319
Packaging supplies	512	343
	6,368	5,722

During the three months ended December 31, 2021 and 2020, the Company did not record any write-downs to inventory.

(Unaudited, expressed in thousands of Canadian dollars)

8 Loans receivable

	December 31, 2021 $	September 30, 2021 $
Current	627	847
Non-current	226	285
	853	1,132

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 6% and 12%, have fixed terms ranging from 12 to 48 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.

9 Borrowings

	December 31, 2021 $	September 30, 2021 $
Line of credit (i)	634	-
Economic Injury Disaster Loan (ii)	190	191
Total borrowings	824	191
Current (i)	634	-
Non-current (ii)	190	191
Total borrowings	824	191

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 at the Prime Rate as published in the Wall Street Journal's Money Rates Table plus 1.5%, with a floor of 4.25%. The amount outstanding at December 31, 2021 is $634 (September 30, 2021 - $nil). NutraDried is subject to current ratio and leverage ratio covenants under the terms of the credit facility and is in compliance with those covenants.

ii) On June 15, 2020, NutraDried received proceeds from an Economic Injury Disaster Loan ("EIDL") with the U.S. Small Business Administration of $190 (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 12 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.

(Unaudited, expressed in thousands of Canadian dollars)

10 Trade and other payables

	December 31, 2021 $	September 30, 2021 $
Trade payables	1,811	1,755
Accrued liabilities	805	728
Personnel related accruals	686	1,632
Security deposits	362	-
Provision for warranty	337	306
	4,001	4,421

11 Leases

a) The following is the carrying amounts of right-of-use assets recognized and the movements during the three months ended December 31, 2021 and 2020:

Leased buildings:	2021 $	2020 $
Balance, October 1	1,405	1,301
Lease modifications	-	835
Depreciation expense	(170)	(173)
Currency translation adjustments	(4)	(45)
Balance, December 31	1,231	1,918

b) The following is the carrying amounts of lease liabilities and the movements during the year:

	Three months ended December 31, 2021 $	2020 $
Balance, October 1	1,592	1,446
Lease additions	-	835
Lease payments	(209)	(162)
Finance expense on lease liabilities	26	38
Changes due to foreign exchange rates	(4)	(47)
Balance, December 31	1,405	2,110
Current	768	702
Non-current	637	1,408
	1,405	2,110

As at December 31, 2021, the lease liabilities are payable on an undiscounted basis as follows:

	December 31, 2021 $
Less than one year	841
One to five years	667
	1,508

(Unaudited, expressed in thousands of Canadian dollars)

12 Contingencies and commitments

a) Commitments payable to vendors by the Company

The Company has entered into various lease agreements for the rental of office space and plant facilities and pays additional rent to cover its share of operating costs and property taxes. The Company has recognized 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.

The future minimum lease payments, including operating costs under these non-cancellable leases, were as follows:

	December 31, 2021 $	September 30, 2021 $
Less than one year	10	53
Between one and five years	10	20
More than five years	-	-
Total	20	73

The Company is committed to incurring capital expenditures relating to the completion of the toll manufacturing facility of $214 (September 30, 2021 - $441). These commitments are expected to be settled within the year.

b) Other liability

On December 6, 2010, the Company entered into an Asset Purchase Agreement (the “INAP APA”) to acquire the patents and know-how for the MIVAP vacuum microwave dehydration technology. On March 28 2018, the Company renewed its INAP License for the exclusive worldwide rights to the know-how related to the MIVAP vacuum microwave technology and agreed to pay minimum annual royalties. The agreements with INAP cover the US, Canadian and worldwide rights. Pursuant to the INAP APA and INAP License, the Company agreed to pay a portion of the license or royalty fees collected from the Company’s customers who purchase EnWave equipment that makes use of the acquired patents and know-how. For usage in North America, the Company remits 25% for food applications and 12.5% for non-food applications, and the agreement expired on February 3, 2019. For usage outside of North America, the Company remits 25% for food applications and 12.5% for non-food applications, and the agreement expires on October 15, 2022. Additionally, the Company agreed to pay INAP a fee equal to 2.5% of the net purchase price of each machine sold that makes use of the acquired patents and know-how.

The acquired intangible asset was recorded at the fair value of the estimated minimum royalty amounts and subsequently at each reporting date at amortized cost. The discounted minimum annual royalty amounts are recorded as a liability. As at December 31, 2021, there was a minimum royalty obligation payable by the Company recorded in other liability of $96 (September 30, 2021 - $126).

(Unaudited, expressed in thousands of Canadian dollars)

	Undiscounted royalties payable US$	Undiscounted royalties payable CA$
2022	75	94
2023	4	5
Total	79	99

c) 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 December 31, 2021.

d) Letter of credit to customers

As at December 31, 2021, the Company had a letter of credit for US $205 (CA $260) issued in favour of a customer related to the terms of an equipment purchase contract. The letter of credit is guaranteed by cash collateral provided by the customer 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 VAT taxes due upon importation into the destination country have been satisfied by the customer.

13 Share capital

a) Authorized: unlimited number of voting common shares without par value.
Issued and outstanding: 110,380,055.

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, 2020	**111,409,755**	**79,840**
Shares issued on exercise of stock options	410,000	510
Shares issued on vesting of restricted share rights	165,000	218
Shares repurchased and cancelled (i)	(1,779,700)	(1,296)
Balance – September 30, 2021	110,205,055	79,272
Shares issued on vesting of restricted share rights	175,000	225
Balance – December 31, 2021	111,380,055	79,497

(Unaudited, expressed in thousands of Canadian dollars)

i) On October 14, 2021, 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 10,778,194 common shares, representing approximately 10% of the public float as of October 14, 2021, but no more than 2,204,101 in any 30-day period. The NCIB period commenced on October 29, 2021 and will end on the earlier of October 29, 2022, and the completion of purchases under the NCIB. All repurchased shares will be cancelled. During the three months ended December 31, 2021, the Company did not purchase nor cancel any common shares.

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, 2020	7,774,202	1.40	0.26
Expired:			
Investor's Warrants (i)	(2,762,000)	1.20	0.24
Balance – September 30, 2021 (ii)	**5,012,202**	**1.50**	**0.27**
Balance – December 31, 2021 (ii)	**5,012,202**	**1.50**	**0.27**

i) Each expired Investor Warrant was exercisable into one common share of the Company at an exercise price of $1.20 per share which expired 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.

ii) Each existing 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.

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, with 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.

(Unaudited, expressed in thousands of Canadian dollars)

The changes in options for the three months ended December 31, 2021 and 2020 were as follows:

	December 31, 2021		December 31, 2020	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Outstanding, beginning of the period	7,160,667	1.46	6,975,667	1.46
Options granted	1,845,000	0.91	150,000	1.06
Options exercised	-	-	(107,000)	0.87
Options expired	(135,000)	1.38	(22,000)	1.05
Outstanding, end of the period	**8,870,667**	**1.33**	**6,996,667**	**1.46**
Exercisable, end of the period	**5,961,832**	**1.48**	**4,986,669**	**1.48**

The weighted average fair value of options granted during the three months ended December 31, 2021 was $0.43 per option (2020 - $0.45).

The following weighted average assumptions were used in calculating the fair value of the stock options granted using the Black-Scholes model for the three months ended December 31, 2021 and 2020:

	Three months ended December 31, 2021	2020
Risk-free interest rate	1.44%	0.32%
Expected life	3.11 years	3.22 years
Estimated volatility	64%	58%
Forfeiture rate	1.25%	1.25%
Dividend rate	0.00%	0.00%

Stock options outstanding as at December 31, 2021 have the following expiry dates and exercise prices:

Year of expiry	Exercise price per share $	Number of options
2022	1.00 - 1.09	432,400
2023	1.07 - 1.45	2,246,267
2024	1.37 - 2.19	1,925,000
2025	1.06 - 1.25	1,325,000
2026	0.90 - 1.65	2,942,000
		8,870,667

During the three months ended December 31, 2021, the Company recorded stock-based compensation expense of $234 (2020 - $254), which includes compensation expense for stock options and for restricted share rights ("RSRs"). The fair value of each option and RSR is accounted for in the condensed consolidated interim statement of loss over the vesting period, and the related credit is included in contributed surplus.

e) Restricted share rights

On February 9, 2021, the shareholders of the Company approved the amendment to the RSR Plan, pursuant to which the Company 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 three months ended December 31, 2021 and 2020 were as follows:

	December 31, 2021		**December 31, 2020**	
	Number of RSRs	**Weighted average grant date fair value $**	**Number of RSRs**	**Weighted average grant date fair value $**
Outstanding, beginning of period	715,000	1.16	790,000	1.15
RSRs granted	275,000	0.90	70,000	1.20
RSRS vested	(175,000)	1.29	(60,000)	1.38
RSRs forfeited	-	-	-	-
Outstanding, end of period	**815,000**	**1.02**	**800,000**	**1.14**

During the three months ended December 31, 2021, stock-based compensation expense of $49 (December 31, 2020 - $97) was recorded for the RSRs vested during the period. RSRs vest three years from the award date, in accordance with the RSR Plan.

14 Related party transactions

a) Key management personnel compensation

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

Remuneration of key management personnel of the Company during the three months ended December 31, 2021 and 2020 comprises the following expenses:

	Three months ended December 31, 2021 $	**2020 $**
Salaries, bonuses and short-term employee benefits	922	605
Stock-based compensation	134	97
	1,056	702

(Unaudited, expressed in thousands of Canadian dollars)

b) Transactions with related parties

The Company had transactions with related parties for the three months ended December 31, 2021 and 2020 in the normal course of business as shown in the table below:

	Three months ended December 31, 2021 $	2020 $
Directors' fees	50	50
Stock-based compensation	23	77
	73	127

15 Revenues

a) Revenue breakdown for the three months ended December 31, 2021 and 2020 is as follows:

	Three months ended December 31, 2021 $	2020 $
Product sales, net	2,231	4,857
Equipment construction contracts	771	1,094
Equipment sales	2,665	984
Royalties and licensing fees	505	320
Equipment rental fees, testing fees and other	125	278
	6,297	7,533

Individual customers representing over 10% of the total revenue during the three months ended December 31, 2021 and 2020 were as follows:

	December 31, 2021		December 31, 2020	
Customer	**$**	**%**	**$**	**%**
A	1,788	28%	2,499	33%
B	-	-	-	-
C	-	-	-	-
Others	4,509	72%	5,034	67%
	6,297	100%	7,533	100%

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

	December 31, 2021		September 30, 2021	
Customer	**$**	**%**	**$**	**%**
X	342	10%	268	12%
Y	339	10%	209	10%
Z	319	10%	-	-
Others	2,262	70%	1,653	78%
	3,262	100%	2,130	100%

(Unaudited, expressed in thousands of Canadian dollars)

16 Expenses by nature

Details of consolidated expenses by nature for direct costs, general and administration, sales and marketing, and research and development expenses for the three months ended December 31, 2021 and 2020 are shown below:

	Three months ended December 31,	
	2021	**2020**
Details of expenses by nature	**$**	**$**
Cost of materials	2,543	4,593
Salaries, wages and employee expenses	2,240	2,442
Commissions, travel and promotion	485	801
Depreciation of plant and equipment	411	607
Professional services	451	411
Office and courier	101	66
Facilities expenses	73	66
Other expenses	104	65
Total expenses	6,408	9,051

17 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 three months ended December 31, 2021 was $147 (2020 - $325) and has been recorded as other income on the condensed consolidated interim statement of loss.

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 interim financial statements.

Credit risk

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

(Unaudited, expressed in thousands of Canadian dollars)

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 December 31, 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	2,786	389	87	-
Due from customers on contract	2,194	-	-	-
Loans receivable	853	-	-	-
Indirect tax receivable	-	36	-	-
Income tax receivable	982	-	-	-
	6,815	425	87	-

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. As at December 31, 2021, the Company held no foreign exchange derivatives outstanding.

The Company attempts to ensure that sufficient funds are available to meet its operating requirements, after taking into account existing cash. The Company manages liquidity risk through the management of its capital structure and financial leverage. As at December 31, 2021, the Company had cash and cash equivalents of $8,435 to settle current liabilities of $6,220.

(Unaudited, expressed in thousands of Canadian dollars)

a) Financial assets maturity table:

	0 – 30 days	**31 – 90 days**	**91- 365 days**	**Over 365 days**
Cash and cash equivalents and restricted cash	8,435	-	587	-
Trade receivables	3,262	-	-	-
Due from customers on contract	-	1,942	252	-
Loans receivable	80	142	405	226
Indirect tax receivables	36	-	-	-
Income taxes receivable	-	-	982	-
	11,813	2,084	2,226	226

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

	0 – 30 days	**31 – 90 days**	**91- 365 days**	**Over 365 days**
Borrowings	634	-	-	190
Trade and other payables	3,235	80	232	454
Customer deposits and deferred revenue	721	-	-	-
Lease liabilities	62	124	683	536
	4,652	204	915	1,180

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 three months ended December 31, 2021, ranged from 0.40% to 0.5% (2020 - 0.40% to 2.10%). A 1% change in interest rates would affect the results of operations by approximately $22 (2020 - $32).

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 customers with sales contracts denominated in US dollars.

(Unaudited, expressed in thousands of Canadian dollars)

A significant change in the currency exchange rate of the Canadian dollar relative to the US dollar could have an effect on the Company's results of operations. As at December 31, 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. As at December 31, 2021, and September 30, 2021, the Company held no foreign exchange contracts. The fair values of the foreign exchange derivatives are recurring measurements and are determined whenever possible based on observable market data. If observable market data on the financial derivatives is not available, the Company uses observable spot and forward foreign exchange rates to estimate their fair values.

A change in the value of the Canadian dollar by 10% relative to foreign currencies the Company is exposed to would have affected the Company's net loss for the three months ended December 31, 2021 and 2020 as follows:

Currency	2021 $	2020 $
US dollar	103	111

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 that 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 "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:

As at	**December 31, 2021**			**September 30, 2021**		
	EnWave $	**NutraDried $**	**Total $**	**EnWave $**	**NutraDried $**	**Total $**
Assets						
Trade receivables	1,724	1,538	3,262	898	1,232	2,130
Due from customers on contract	2,194	-	2,194	1,535	-	1,535
Loans receivable	853	-	853	1,132	-	1,132
Inventory	2,649	3,719	6,368	3,060	2,662	5,722
Plant and equipment	2,616	2,422	5,038	2,192	2,346	4,538
Right-of-use assets	610	621	1,231	691	714	1,405
Intangible assets	95	79	174	127	80	207
	10,741	8,379	19,120	9,635	7,034	16,669
Liabilities						
Trade and other payables	2,215	1,786	4,001	2,946	1,475	4,421
Customer deposits and deferred revenue	721	-	721	1,323	-	1,323
Borrowings	-	824	824	-	191	191
Lease liabilities	719	686	1,405	811	781	1,592
Other liability	96	-	96	126	-	126
	3,751	3,296	7,047	5,206	2,447	7,653

For the three months ended	**December 31, 2021**			
	EnWave $	**NutraDried $**	**Elimination adjustments $**	**Total $**
Revenues – external customers	4,067	2,230	-	6,297
Revenues – other segments	298	-	(298)	-
Total revenues	4,365	2,230	(298)	6,297
Expenses	(3,912)	(3,130)	345	(6,697)
Other income	147	-	-	147
Net income (loss)	600	(900)	47	(253)

For the three months ended	**December 31, 2020**			
	EnWave $	**NutraDried $**	**Elimination adjustments $**	**Total $**
Revenues – external customers	2,676	4,857	-	7,533
Revenues – other segments	516	-	(516)	-
Total revenues	3,192	4,857	(516)	7,533
Expenses	(3,542)	(6,330)	643	(9,229)
Other income	325	-	-	325
Net loss	(25)	(1,473)	127	(1,371)

Revenues for EnWave comprise all equipment sales and construction contracts, royalties and licensing fees, and equipment rental fees, testing fees and other referred to in note 15 and account for approximately 65% of the consolidated revenues. Revenues for NutraDried relate to product sales referred to in note 15 and account for approximately 35% of the consolidated revenues.