ENWAVE

CORPORATION

Condensed Consolidated Interim Financial Statements

Three and nine months ended June 30, 2020 and 2019

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

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

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

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

EnWave Corporation

Condensed Consolidated Interim Statements of Financial Position

As at June 30, 2020 and September 30, 2019

(Unaudited, expressed in thousands of Canadian dollars)

	Note	June 30, 2020 $	September 30, 2019 $
Assets			
Current assets			
Cash and cash equivalents		**15,559**	18,665
Restricted cash		**250**	250
Trade receivables		**4,023**	10,329
Due from customers on contract	4	**357**	1,557
Inventory	6	**10,615**	5,986
Prepaids and other receivables	5	**618**	942
Income taxes receivable		**669**	98
		32,091	37,827
Non-current assets			
Deposits and other receivables		**112**	-
Plant and equipment		**4,398**	4,831
Right-of-use assets		**1,182**	-
Intangible assets		**407**	592
		6,099	5,423
Total assets		**38,190**	43,250
Liabilities			
Current liabilities			
Borrowings	7	**681**	-
Trade and other payables	8	**3,906**	8,791
Amounts due to related parties		**-**	44
Customer deposits and deferred revenue	4	**2,573**	2,768
Deferred government assistance	15	**616**	-
Current portion lease liabilities	9	**415**	-
Current portion of other liability	10(a)	**120**	108
		8,311	11,711
Non-current liabilities			
Borrowings	7	**204**	-
Deferred income tax liability		**290**	348
Long-term portion of lease liabilities	9	**914**	-
Long-term portion of other liability	10(a)	**166**	247
		1,574	595
Total liabilities		**9,885**	12,306
Equity			
Share capital	11(b)	**79,840**	79,063
Warrants	11(c)	**1,641**	1,715
Contributed surplus		**8,924**	8,035
Foreign currency translation reserve		**957**	694
Deficit		**(63,057)**	(58,563)
Total equity		**28,305**	30,944
Total liabilities and equity		**38,190**	43,250
Contingencies and commitments	10(b)		
Subsequent event	19		

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

EnWave Corporation

Condensed Consolidated Interim Statements of Loss

For the three and nine months ended June 30, 2020 and 2019

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

		Three months ended		Nine months ended	
		June 30, 2020 $	**June 30, 2019 $**	**June 30, 2020 $**	**June 30, 2019 $**
Revenues	13	**5,998**	10,075	**22,099**	26,654
Direct costs		**(4,441)**	(7,217)	**(15,483)**	(17,639)
		1,557	2,858	**6,616**	9,015
Expenses					
General and administration		**1,197**	1,118	**4,513**	3,165
Sales and marketing		**1,449**	1,203	**5,188**	3,263
Research and development		**396**	665	**1,412**	1,375
Amortization of intangible assets		**62**	92	**186**	337
Stock-based compensation	11(d)	**314**	501	**1,156**	1,310
Foreign exchange loss (gain)		**151**	13	**(142)**	(12)
Restructuring costs	16	**-**	612	**-**	612
Finance income, net		**(27)**	(55)	**(87)**	(103)
Other income	15	**(690)**	-	**(690)**	-
		2,852	4,149	**11,536**	9,947
Loss before income taxes		**(1,295)**	(1,291)	**(4,920)**	(932)
Income tax (recovery) expense					
Current		**(116)**	36	**(410)**	575
Deferred		**(13)**	(5)	**(68)**	54
Net loss for the period		**(1,166)**	(1,322)	**(4,442)**	(1,561)
Basic and diluted loss per share		**(0.01)**	(0.01)	**(0.04)**	(0.02)
Weighted average number of shares outstanding – basic and diluted		**111,409,755**	107,472,044	**111,206,490**	103,667,281

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, 2020 and 2019

(Unaudited, expressed in thousands of Canadian dollars)

	Three months ended		Nine months ended	
	June 30, 2020 $	**June 30, 2019 $**	**June 30, 2020 $**	**June 30, 2019 $**
Net loss for the period	**(1,166)**	(1,322)	**(4,442)**	(1,561)
Other comprehensive loss				
Items that may be subsequently reclassified to profit or loss				
Foreign exchange translation (loss) gain	**(353)**	(170)	**263**	47
Total comprehensive loss for the period	**(1,519)**	(1,492)	**(4,179)**	(1,514)

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, 2020 and 2019

(Unaudited, expressed in thousands of Canadian dollars)

	Share capital				Foreign currency translation		
	Number	Value $	Warrants $	Contributed surplus $	reserve $	Deficit $	Total $
Balance – September 30, 2018	100,926,409	63,391	1,895	7,582	548	(56,494)	16,922
Impact of adopting IFRS 15	-	-	-	-	-	(83)	(83)
Net loss for the period	-	-	-	-	-	(1,561)	(1,561)
Effects of foreign currency translation	-	-	-	-	47	-	47
Shares issued with private placement	5,302,227	9,177	-	-	-	-	9,177
Shares issued on exercise of underwriter's warrants	445,921	574	(106)	-	-	-	468
Shares issued on exercise of warrants	187,317	268	(40)	-	-	-	228
Shares issued on exercise of options	3,590,666	5,139	-	(1,253)	-	-	3,886
Shares issued on restricted share rights	70,000	58	-	(58)	-	-	-
Restricted share rights	-	-	-	231	-	-	231
Stock-based compensation	-	-	-	1,079	-	-	1,079
Balance – June 30, 2019	110,522,540	78,607	1,749	7,581	595	(58,138)	30,394
Balance – September 30, 2019	110,836,515	79,063	1,715	8,035	694	(58,563)	30,944
Impact of adopting IFRS 16 (note 3)	-	-	-	-	-	(52)	(52)
Net loss for the period	-	-	-	-	-	(4,442)	(4,442)
Effects of foreign currency translation	-	-	-	-	263	-	263
Share issuance costs	-	2	-	-	-	-	2
Shares issued on exercise of Underwriter's Warrants	54,446	70	(13)	-	-	-	57
Shares issued on exercise of warrants	145,794	235	(59)	-	-	-	176
Expiry of Underwriter's Warrants	-	-	(2)	2	-	-	-
Shares issued on exercise of stock options	183,000	269	-	(68)	-	-	201
Shares issued with restricted share rights	190,000	201	-	(201)	-	-	-
Restricted share rights	-	-	-	222	-	-	222
Stock-based compensation	-	-	-	934	-	-	934
Balance – June 30, 2020	111,409,755	79,840	1,641	8,924	957	(63,057)	28,305

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, 2020 and 2019

(Unaudited, expressed in thousands of Canadian dollars)

	Note	Nine months ended June 30, 2020 $	2019 $
Cash flows from operating activities			
Net loss for the period		**(4,442)**	(1,561)
Items not affecting cash			
Depreciation and amortization		**1,279**	1,429
(Gain) loss on disposal of assets		**(17)**	259
Stock-based compensation	11(d)	**1,156**	1,310
Finance income, net		**(87)**	(103)
Income tax (recovery) expense		**(478)**	629
Inventory write-offs		**84**	-
Foreign exchange gain		**(142)**	(12)
		(2,647)	1,951
Changes in non-cash working capital			
Trade receivables		**6,505**	(704)
Prepaids and other receivables		**132**	(390)
Inventory		**(5,434)**	(3,439)
Trade and other payables		**(3,552)**	1,549
Due to/from related parties		**-**	(14)
Due from customers on contract and deferred revenue		**1,623**	2,167
Net cash (used in) generated from operating activities before income taxes		**(3,373)**	1,120
Income taxes paid		**(151)**	(697)
Net cash (used in) generated from operating activities		**(3,524)**	423
Cash flows from investing activities			
Acquisition of plant and equipment		**(695)**	(1,665)
Proceeds from disposal of plant and equipment		**21**	145
Acquisition of intangible assets		**-**	(30)
Finance income received		**218**	129
Net cash used in investing activities		**(456)**	(1,421)
Cash flows from financing activities			
Proceeds from private placement and prospectus financing	11(b)	**-**	10,087
Share issue costs	11(b)	**2**	(910)
Proceeds from exercise of stock options	11(d)	**201**	3,885
Proceeds from exercise of warrants	11(c)	**233**	696
Proceeds from borrowings	7	**868**	-
Payment of lease liabilities	9	**(386)**	-
Lease payments received from finance leases		**13**	-
Payment of other liability	10(a)	**(102)**	(100)
Net cash generated from financing activities		**829**	13,658
Effect of foreign exchange translation on cash		**45**	63
(Decrease) Increase in cash and cash equivalents		**(3,106)**	12,723
Cash and cash equivalents - Beginning of the period		**18,665**	9,101
Cash and cash equivalents - End of the period		**15,559**	21,824
Non-cash transactions			
Acquisition of plant and equipment through accounts payable		**(122)**	47

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

1 Nature of operations

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

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

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

2 Basis of preparation

Statement of compliance

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

These interim financial statements were approved for issuance by the Board of Directors for issue on August 27, 2020.

Critical accounting estimates

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates. The Company regularly reviews its estimates and assumptions; however, it is possible that circumstances may arise which may cause actual results to differ from management estimates, and these differences could be material. Estimates and underlying assumptions are reviewed on an ongoing basis and revisions to estimates are recorded prospectively.

Revenue recognition

The recognition of revenue as of the consolidated statement of financial position date requires management to make significant estimates primarily relating to the percentage-of-completion method to determine the amount of revenue to recognize. The stage of completion is measured by reference to the actual contract costs incurred as a percentage of total estimated costs for each contract. If the total actual contract costs were to differ by 10% from management’s estimated contract costs, the amount of revenue recognized in the period would be increased or decreased by $593 (2019 - $626).

Impairment of inventory

The Company measures inventory at the lower of cost and net realizable value, and in the event the net realizable value exceeds cost, an impairment charge is recorded. This determination requires judgement, which includes, among other factors, the selling price, less the estimated costs of completion and selling expenses.

Impairment of non-financial assets

At each reporting date, the Company assesses its non-financial assets to determine whether there are any indications of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated. Non-financial assets that do not generate independent cash flows are grouped together into a cash generating unit ("CGU"), which represents the lowest level at which largely independent cash flows are generated. The recoverable amount of a CGU is the greater of its value in use and its fair value less costs of disposal. Value in use is calculated as the present value of the estimated future cash flows discounted at appropriate discount rates. These calculations require the use of estimates and assumptions.

Other liability

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

The Company estimates the liability based on the present value of minimum royalties payable to INAP GmbH (Industrie-Anlagen-Planung – "INAP"), a private German company, over the life of the agreement discounted at prevailing market rates. The potential variability of this estimate is significant given that it will be highly sensitive to the number of additional sub-licensees and their ultimate use of the technology. The measurement of the liability could change depending on the ultimate use of the technology which gives rise to the royalty.

Warranty provision

The Company recognizes revenue from the sale of machines to customers. Machines are sold with a manufacturer's warranty valid for a fixed period not exceeding one year. The Company estimates, based on past experience with similar sales, that the warranty costs will not exceed 1% of revenues. The Company therefore recognizes a provision for warranty equal to 1% of revenue recognized.

3 Significant accounting policies

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

New accounting standard adopted during the period

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

(Unaudited, expressed in thousands of Canadian dollars)

IFRS 16 - Leases

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

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

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

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

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

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

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

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

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

	As at October 1, 2019 $
Right-of-use assets	1,570
Lease liabilities	1,622
Retained deficit	52

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

Leases

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

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

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

Lease accounting

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

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

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

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

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

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

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

IAS 20 – Government Grants

Government grants are recognized where there is reasonable assurance that the grant will be received and that the Company will comply with all the conditions attached to them. A forgivable loan from government is treated as a government grant when there is reasonable assurance that the entity will meet the terms for forgiveness of the loan.

(Unaudited, expressed in thousands of Canadian dollars)

Government grants that are related to an expense item are recorded as deferred income and recognized in the statement of profit or loss as income on a systematic basis over the periods the related costs, for which it is intended to compensate, are expensed.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized in the statement of profit or loss in the period in which they become receivable.

4 Contract assets and contract liabilities

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

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

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

	June 30, 2020 $	**September 30, 2019 $**
Due from customers on contract	357	1,557
Customer deposits and deferred revenues	(2,573)	(2,768)
	(2,216)	(1,211)

During the nine months ended June 30, 2020, the Company recognized revenue from equipment sales and construction contracts of $1,602 (2019 - $1,110) that was included as deferred revenue at the beginning of the period.

5 Prepaids and other receivables

	June 30, 2020 $	**September 30, 2019 $**
Prepaid expenses	574	810
Indirect tax receivables	19	132
Other receivables	25	-
	618	942

(Unaudited, expressed in thousands of Canadian dollars)

6 Inventory

	June 30, 2020 $	September 30, 2019 $
Machine parts and work-in-progress	2,956	2,198
Food products	7,296	3,562
Packaging supplies	363	226
	10,615	5,986

During the nine months ended June 30, 2020, the Company recorded $83 (2019 - $nil) of inventory write-offs related to machine parts and packaging supplies. This was recognized as an expense and included in direct costs in the condensed consolidated interim statements of loss.

7 Borrowings

	June 30, 2020 $
Line of Credit (i)	681
Economic Injury Disaster Loan (ii)	204
Total borrowings	885
Current portion	(681)
Long-term portion	204

i) The Company's subsidiary, NutraDried, has a credit line agreement for up to US $500 of short-term borrowings that is payable on demand. The credit facility bears interest rate at the Wall Street Journal Prime Rate plus 1.5%, with a floor of 5.75%. The amount outstanding at June 30, 2020 is $681 (US $500) (2019 - $nil). NutraDried is subject to current ratio and leverage ratio covenants under the terms of the credit facility and is in compliance with those covenants.

ii) On June 15, 2020, NutraDried received proceeds from an Economic Injury Disaster Loan ("EIDL") with the U.S. Small Business Administration of $204 (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.

8 Trade and other payables

	June 30, 2020 $	September 30, 2019 $
Trade payables	1,622	5,051
Accrued liabilities	941	2,175
Personnel related accruals	1,023	1,301
Provision for warranty	320	264
	3,906	8,791

(Unaudited, expressed in thousands of Canadian dollars)

9 Lease liabilities

The following is a continuity schedule of lease liabilities for the nine months ended June 30, 2020:

	$
Balance – September 30, 2019	-
IFRS 16 transition [1]	1,622
Lease payments	(386)
Interest expense on lease liabilities	90
Changes due to foreign exchange rates	3
Balance – June 30, 2020	1,329
Current portion	(415)
Long-term portion	914

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

Maturity of contractual undiscounted lease payments	**June 30, 2020 $**
Less than one year	506
One to five years	1,013
	1,519

10 Contingencies and commitments

a) Other liability

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

The acquired intangible asset was recorded at the fair value of the estimated minimum royalty amounts and subsequently at each reporting date at amortized cost. As at June 30, 2020, there was a minimum royalty obligation payable by the Company recorded in other liability of $286 (September 30, 2019 - $355).

(Unaudited, expressed in thousands of Canadian dollars)

	Undiscounted royalties payable US$	Undiscounted royalties payable CA$
2020	25	34
2021	100	136
2022	100	136
2023	4	5
Total	229	311

b) Letter of credit to customers

As at June 30, 2020, the Company had a letter of credit for US $437 (CA $596) issued in favour of a customer related to the terms of an equipment purchase contract. The letter of credit is guaranteed by an Export Development Canada ("EDC") guarantee and is not subject to any other collateral requirements by the Company. The letter of credit will be returned to the Company upon confirmation that the equipment has been shipped to the customer according to the equipment purchase contract terms.

11 Share capital

a) Authorized: unlimited number of voting common shares without par value. Issued and outstanding: 111,409,755.

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

b) Issued and fully paid:

		Share capital
	Number	Value $
Balance – October 1, 2018	100,926,409	63,391
Shares issued with private placement (i)	5,302,227	10,087
Share issue costs (i)	-	(910)
Shares issued on exercise of Underwriter's Warrants	453,609	584
Shares issued on exercise of Investor's Warrants	341,937	487
Shares issued on exercise of stock options	3,742,333	5,366
Shares issued on vesting of RSRs	70,000	58
Balance – September 30, 2019	110,836,515	79,063
Share issue costs	-	2
Shares issued on exercise of Underwriter's Warrants	54,446	70
Shares issued on exercise of Investor's Warrants	145,794	235
Shares issued on exercise of stock options	183,000	269
Shares issued on vesting of RSRs	190,000	201
Balance – June 30, 2020	111,409,755	79,840

i) On April 26, 2019, the Company completed a share purchase agreement with Aurora Cannabis Inc. ("Aurora"). Aurora purchased 5,302,227 common shares of the Company for consideration of 840,576 common shares of Aurora (the "Aurora Financing"). Immediately upon closing of the transaction, the

(Unaudited, expressed in thousands of Canadian dollars)

Company disposed of the 840,576 common shares of Aurora for gross proceeds of $10,087. The Company incurred share issue costs of $910 in connection with the Aurora Financing.

c) Warrants

The continuity of share purchase warrants during the nine months ended June 30, 2020 and 2019 is as follows:

	Number of warrants	Weighted average exercise price $	Fair value at grant date $
Balance September 30, 2018	8,522,476	1.36	0.27
Issued:			
Investor's Warrants (i)	226,801	1.50	0.27
Exercised:			
Underwriter's Warrants (ii)	(453,609)	1.05	0.36
Investor's Warrants (i) (iii)	(341,937)	1.21	0.24
Balance – September 30, 2019	7,953,731	1.39	0.26
Issued:			
Investor's Warrants (i)	27,220	1.50	0.27
Exercised:			
Underwriter's Warrants (ii)	(54,446)	1.05	0.36
Investor's Warrants (iii)	(145,794)	1.20	0.24
Expired:			
Underwriter's Warrants (ii)	(6,509)	1.05	0.36
Balance – June 30, 2020	7,774,202	1.40	0.26

i) Each Investor Warrant issued is exercisable into one common share of the Company at an exercise price of $1.50 per share expiring on November 15, 2022. The fair value of the warrants at the date of grant was estimated at $0.27 per warrant using the Black-Scholes model based on the following assumptions: Stock price volatility 39%, risk-free interest rate 1.63%, dividend yield 0%, and expected life of 5.0 years.

ii) Each Underwriter's Warrant entitles the holder to purchase one common share and one-half of a share purchase warrant at an exercise price of $1.05 and expired on November 15, 2019. The share purchase warrants issued on exercise is exercisable into one common share of the Company at an exercise price of $1.50 per share expiring on November 15, 2022. The fair value of the Underwriter's Warrants was calculated using the Black-Scholes model to be $0.36 per each Underwriter's Warrant. The following assumptions were used in estimating the fair value of the Underwriter's Warrants: Stock price volatility 42%, risk-free interest rate 1.44%, dividend yield 0%, and expected life of 2.0 years.

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

(Unaudited, expressed in thousands of Canadian dollars)

The following table summarizes the warrants that remain outstanding as at June 30, 2020:

Exercise price $	Number of warrants	Expiry date
1.20	2,762,000	October 22, 2020
1.50	5,012,202	November 15, 2022
	7,774,202	

d) Stock options

The Company's stock option plan (the "Option Plan") is available to eligible persons, whereby up to 10% of the issued common shares of the Company may be reserved for issuance under the Option Plan. The aggregate number of common shares reserved for issuance to any person within any one year may not exceed 5% of the number of outstanding common shares, on a non-diluted basis.

The exercise price of the options will be determined by the Board of Directors at the time of grant of the options, such price not to be less than the last daily closing price of the Company's common shares prior to the date of grant, less the discount permitted by the policies of the TSX Venture Exchange.

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

The changes in options for the nine months ended June 30, 2020 and 2019 were as follows:

	June 30, 2020		June 30, 2019	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Outstanding, beginning of the period	5,952,000	1.45	7,291,001	1.12
Options granted	2,135,000	1.40	2,010,000	1.62
Options exercised	(183,000)	1.10	(3,590,666)	1.08
Options expired	(716,667)	1.37	(466,668)	1.40
Outstanding, end of the period	**7,187,333**	**1.45**	**5,243,667**	**1.32**
Exercisable, end of the period	**4,541,500**	**1.37**	**2,506,100**	**1.13**

The weighted average fair value of options granted during the nine months ended June 30, 2020 was $0.33 per option (2019 - $0.55).

(Unaudited, expressed in thousands of Canadian dollars)

The following weighted average assumptions were used in calculating the fair value of the stock options granted using the Black-Scholes model for the nine months ended June 30, 2020 and 2019:

	Nine months ended June 30, 2020	**2019**
Risk-free interest rate	0.82%	1.96%
Expected life	3.65 years	3.81 years
Estimated volatility	50%	43%
Forfeiture rate	1.33%	1.25%
Dividend rate	0.00%	0.00%

Stock options outstanding as at June 30, 2020 have the following expiry date and exercise prices:

Year of expiry	**Exercise price per share $**	**Number of options**
2020	0.80	19,000
2021	0.87 - 1.28	360,000
2022	1.00 - 1.09	532,400
2023	1.07 - 1.45	2,652,600
2024	1.37 - 2.19	2,198,333
2025	1.11 - 1.25	1,425,000
		7,187,333

During the nine months ended June 30, 2020, the Company recorded stock-based compensation expense of $1,156 (2019 - $1,310), which includes compensation expense for stock options and for restricted share rights (“RSRs”). The fair value of each option and RSR is accounted for in the condensed consolidated interim statements of loss over the vesting period, and the related credit is included in contributed surplus.

e) Restricted share rights

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

The changes in RSRs for the nine months ended June 30, 2020 and 2019 were as follows:

	June 30, 2020		**June 30, 2019**	
	Number of RSRs	**Weighted average grant date fair value $**	**Number of RSRs**	**Weighted average grant date fair value $**
Outstanding, beginning of the period	775,000	1.29	710,000	1.21
RSRs granted	285,000	0.78	225,000	1.41
RSRs vested	(190,000)	1.06	(70,000)	(0.83)
RSRs forfeited	(80,000)	1.40	(90,000)	(1.29)
Outstanding, end of the period	**790,000**	**1.16**	**775,000**	**1.29**

(Unaudited, expressed in thousands of Canadian dollars)

During the nine months ended June 30, 2020, stock-based compensation expense of $222 (2019 - $231) was recorded for the RSRs vested during the period. RSRs vest three years from the award date, in accordance with the RSR Plan.

12 Related party transactions

a) Key management personnel compensation

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

Remuneration of key management personnel of the Company during the three and nine months ended June 30, 2020 and 2019 comprises the following expenses:

	Three months ended June 30,		**Nine months ended June 30,**	
	2020 $	**2019 $**	**2020 $**	**2019 $**
Salaries, bonuses, and short-term employee benefits	238	161	1,229	936
Stock-based compensation	120	40	530	433
	358	201	1,759	1,369

b) Purchases from related parties

The Company had purchases from related parties for the three and nine months ended June 30, 2020 and 2019 in the normal course of business as shown in the table below:

	Three months ended June 30,		**Nine months ended June 30,**	
	2020 $	**2019 $**	**2020 $**	**2019 $**
Directors' fees	50	40	140	96
Stock-based compensation	78	25	263	73
	128	65	403	169

(Unaudited, expressed in thousands of Canadian dollars)

13 Revenues

a) Revenue breakdown for the three and nine months ended June 30, 2020 and 2019 is as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2020 $	2019 $	2020 $	2019 $
Equipment sales and construction contracts	1,392	4,827	6,924	7,622
Product sales	4,389	5,000	13,766	18,092
Equipment rental fees, testing fees and other	73	113	718	429
Royalties and licensing fees	144	135	691	511
	5,998	10,075	22,099	26,654

Individual customers representing over 10% of the total revenue during the nine months ended June 30, 2020 and 2019 were as follows:

	June 30, 2020		June 30, 2019	
Customer	$	%	$	%
A	3,224	15	9,090	34
Others	18,875	85	17,564	66
	22,099	100	26,654	100

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

	June 30, 2020		September 30, 2019	
Customer	$	%	$	%
X	804	20	7,476	72
Y	778	19	-	-
Z	465	12	-	-
Others	1,976	49	2,853	28
	4,023	100	10,329	100

(Unaudited, expressed in thousands of Canadian dollars)

14 Expenses by nature

Details of consolidated expenses by nature for direct costs, general and administration, sales and marketing, and research and development expenses for the three and nine months ended June 30, 2020 and 2019 are shown below.

	Three months ended June 30,		Nine months ended June 30,	
Details of expenses by nature	**2020 $**	**2019 $**	**2020 $**	**2019 $**
Cost of materials	3,457	5,376	10,654	12,546
Salaries, wages and employee expenses	2,155	2,384	8,672	6,350
Travel and promotional costs	786	882	3,344	1,970
Depreciation of plant and equipment	451	266	1,093	1,091
Professional services	441	398	1,647	1,265
Rent	112	149	321	453
Office and courier	64	77	363	239
Other expenses	34	412	519	1,269
(Gain) loss on disposal of plant and equipment	(17)	259	(17)	259
Total expenses	7,483	10,203	26,596	25,442

15 Government assistance

a) EnWave received COVID-19 financial relief in Canada under the Canada Emergency Wage Subsidy ("CEWS") program. 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 qualified subsidy amounts received under the program are non-repayable. The cumulative amount of subsidy received from the Canadian federal government under the program as at June 30, 2020 was $336 and has been recorded as other income on the condensed consolidated interim statements of loss.

b) On April 25, 2020 NutraDried received CA $959 (US $704) of COVID-19 financial relief in the U.S. under the U.S. federal government's Paycheck Protection Program ("PPP"). The PPP provides forgivable loans to small businesses to cover payroll, rent and utilities costs during the economic crisis period. The PPP loan is unsecured and all of the loan is eligible to be forgiven as long as the loan proceeds are used to cover eligible expenses incurred over the 24-week period after the loan is made, and the employee and compensation levels are maintained. If the loan is not fully forgiven, the loan will bear interest at 1% and will be paid back in 18 equal monthly payments with the first payment due on November 25, 2020.

The Company has treated the forgivable PPP loan as a government grant and has recognized the portion of the loan that is eligible for forgiveness as at the end of the period as other income when there is reasonable assurance that NutraDried will meet the terms of forgiveness of the loan. The portion that is not recognized as other income has been deferred until either the forgiveness criteria are met or the amount is not forgiven under the terms of the PPP loan. The deferred amount as at June 30, 2020 is $616 (US $452).

16 Restructuring costs

On May 1, 2019, the Company restructured the sales and marketing function of NutraDried and incurred a contract termination expense of $612. Following the restructuring, the sales and marketing function is managed internally by the Company, whereas previously it was under contract with an external agency.

17 Financial instruments risk

The use of financial instruments exposes the Company to a number of risks. These risks include credit risk, liquidity risk, and market risk. The Company has established policies and procedures to manage these risks, with the objective of minimizing the adverse effects that changes in the variable factors underlying these risks could have on the Company's condensed consolidated interim financial statements.

Credit risk

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

The Company provides credit to its customers in the normal course of business and, as such, has exposure to credit risk in relation to the collection of trade receivables and due from customers on contract. Prior to issuing credit, management reviews the customer, taking into account its financial position, historical experience, and other factors. The Company minimizes its credit risk associated with trade receivables and due from customers on contract by maintaining ongoing close contact with customers and by reviewing individual account balances, and proactively following up on overdue amounts. The Company maintains a provision for credit losses relating to specific losses estimated on individual exposures. As at June 30, 2020, the Company has recorded $nil (September 30, 2019 - $58) provision for expected credit losses.

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

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

(Unaudited, expressed in thousands of Canadian dollars)

The following table provides information regarding the aging of receivables as at June 30, 2020:

	Neither past due nor impaired	Past due but not impaired		
	0 – 30 days	**31 – 90 days**	**91 – 365 days**	**Over 365 days**
Trade receivables	3,612	277	134	-
Due from customers on contract	357	-	-	-
	3,969	277	134	-

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due.

The Company manages liquidity risk through ongoing management and forecasting of cash flows, budgeting, and equity financings. Cash flow forecasting is performed to monitor cash requirements and to manage capital management decisions. Such forecasting takes into account current and potential customers, contractual obligations and the Company's technology development and commercialization expectations.

The Company's investment policy is to invest its cash in highly liquid short-term interest bearing investments with varying maturities selected with regards to the expected timing of expenditures from continuing operations.

The Company attempts to ensure that sufficient funds are available to meet its operating requirements, after taking into account existing cash. The Company manages liquidity risk through the management of its capital structure and financial leverage. As at June 30, 2020, the Company had cash and cash equivalents of $15,559 to settle current liabilities of $8,311.

a) Financial assets maturity table:

	0 – 30 days	**31 – 90 days**	**91 – 365 days**	**Over 365 days**
Cash and cash equivalents and restricted cash	15,559	-	250	-
Trade receivables	3,871	18	134	-
Due from customers on contract	-	151	206	-
Income taxes receivable	669	-	-	-
	20,099	169	590	-

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

	0 – 30 days	**31 – 90 days**	**91 – 365 days**	**Over 365 days**
Trade and other payables	3,548	25	333	-
Borrowings	681	-	-	204
Lease liabilities	34	70	311	914
	4,263	95	644	1,118

(Unaudited, expressed in thousands of Canadian dollars)

Market risk

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

Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest risk from the interest rate impact on cash and cash equivalents, restricted cash, and borrowings. The Company earns interest on deposits based on current market interest rates, which during the nine months ended June 30, 2020 ranged from 1.75% to 2.10% (2019 - 1.85% to 2.30%). A 1% change in interest rates would affect the results of operations by approximately $104 (2019 - $160).

Foreign exchange risk

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

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

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

A significant change in the currency exchange rate of the Canadian dollar relative to the US dollar could have an effect on the Company’s results of operations. As at June 30, 2020, all of the Company’s liquid assets and liabilities were held in Canadian dollars and US dollars.

The Company enters into foreign exchange derivative contracts when appropriate to minimize exposure to foreign currencies when appropriate. At June 30, 2020, and September 30, 2019, the Company held no foreign exchange contracts. The fair values of the foreign exchange derivatives are recurring measurements and are determined whenever possible based on observable market data. If observable market data on the financial derivatives is not available, the Company uses observable spot and forward foreign exchange rates to estimate their fair values.

A change in the value of the Canadian dollar by 10% relative to foreign currencies the Company is exposed to would have affected the Company’s net loss for the nine months ended June 30, 2020 and 2019 as follows:

	2020	**2019**
Currency	**$**	**$**
US dollar	76	514

Capital management

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

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

(Unaudited, expressed in thousands of Canadian dollars)

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.

18 Segmented information

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

As at	**June 30, 2020**			**September 30, 2019**		
	EnWave $	**NutraDried $**	**Total $**	**EnWave $**	**NutraDried $**	**Total $**
Assets						
Trade receivables	1,318	2,705	4,023	1,356	8,973	10,329
Inventory	2,956	7,659	10,615	2,198	3,788	5,986
Plant and equipment	876	3,522	4,398	1,092	3,739	4,831
Right-of-use assets	1,100	82	1,182	-	-	-
Intangible assets	383	24	407	560	32	592
	6,633	13,992	20,625	5,206	16,532	21,738
Liabilities						
Trade and other payables	1,403	2,503	3,906	2,312	6,479	8,791
Amounts due to related parties	-	-	-	-	44	44
Customer deposits and deferred revenue	2,573	-	2,573	2,768	-	2,768
Deferred government grant	-	616	616	-	-	-
Borrowings	-	885	885	-	-	-
Lease liabilities	1,238	91	1,329	-	-	-
Other liability	286	-	286	355	-	355
	5,500	4,095	9,595	5,435	6,523	11,958

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

(Unaudited, expressed in thousands of Canadian dollars)

For the nine months ended	June 30, 2019			
	EnWave Canada $	**EnWave USA $**	**Elimination adjustments $**	**Total $**
Revenues – external customers	8,562	18,092	-	26,654
Revenues – other segments	1,471	-	(1,471)	-
Total revenues	10,033	18,092	(1,471)	26,654
Expenses	(14,115)	(15,536)	1,436	(28,215)
Net (loss) income	(4,082)	2,556	(35)	(1,561)

Revenues for EnWave Canada comprise all equipment sales and construction contracts, royalties and licensing fees, and equipment rental fees, testing fees and other referred to in note 13 and account for approximately 38% of the consolidated revenues. Revenues for NutraDried relate to product sales referred to in note 13 and account for approximately 62% of the consolidated revenue.

19 Subsequent event

On July 22, 2020, the letter of credit referred to in note 10(b) was returned to the Company after confirmation that the equipment under the purchase contract was shipped to the customer.