



E N W A V E  
C O R P O R A T I O N

Consolidated Financial Statements

**Years ended September 30, 2022 and 2021**

(expressed in thousands of Canadian dollars)



## Independent auditor's report

To the Shareholders of EnWave Corporation

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### Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of EnWave Corporation and its subsidiaries (together, the Company) as at September 30, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

#### What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of loss for the years ended September 30, 2022 and 2021;
- the consolidated statements of comprehensive loss for the years then ended;
- the consolidated statements of financial position as at September 30, 2022 and 2021;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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### Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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### Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### **Responsibilities of management and those charged with governance for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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### **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error,



as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is David Neale.

**/s/PricewaterhouseCoopers LLP**

Chartered Professional Accountants

Vancouver, British Columbia  
December 15, 2022

# EnWave Corporation

## Consolidated Statements of Loss

### For the years ended September 30, 2022 and 2021

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

	Note	2022 \$	2021 \$
<b>Revenues</b>	18	<b>23,703</b>	26,476
<b>Direct costs</b>		<b>17,412</b>	19,309
		<b>6,291</b>	7,167
<b>Expenses</b>			
General and administration		<b>4,522</b>	5,093
Sales and marketing		<b>5,466</b>	4,652
Research and development		<b>2,175</b>	1,876
Stock-based compensation	16(d)	<b>1,132</b>	824
Amortization of intangible assets	10	<b>136</b>	218
Loss on disposal of assets	11	<b>32</b>	6
Restructuring charges		<b>-</b>	691
Other income	20	<b>(147)</b>	(1,339)
Foreign exchange gain		<b>(96)</b>	(15)
Finance expense (income), net		<b>26</b>	(7)
		<b>13,246</b>	11,999
<b>Loss for the year before income taxes</b>		<b>(6,955)</b>	(4,832)
Income tax recovery			
Current	21	<b>(28)</b>	(453)
Deferred	21	<b>-</b>	(254)
<b>Net loss for the year</b>		<b>(6,927)</b>	(4,125)
<b>Net loss per common share</b>			
Basic and diluted		<b>(0.06)</b>	(0.04)
<b>Weighted average number of shares outstanding</b>			
Basic and diluted		<b>110,351,301</b>	111,572,716

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

# EnWave Corporation

## Consolidated Statements of Comprehensive Loss For the years ended September 30, 2022 and 2021

(expressed in thousands of Canadian dollars)

	Note	2022 \$	2021 \$
<b>Net loss for the year</b>		<b>(6,927)</b>	<b>(4,125)</b>
<b>Other comprehensive loss</b>			
Items that may be subsequently reclassified to profit or loss:			
Foreign exchange translation gain (loss)		<u>435</u>	<u>(585)</u>
<b>Total comprehensive loss for the year</b>		<b><u>(6,492)</u></b>	<b><u>(4,710)</u></b>

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

# EnWave Corporation

## Consolidated Statements of Financial Position

### As at September 30, 2022 and 2021

(expressed in thousands of Canadian dollars)

	Note	2022 \$	2021 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	4(a)	6,199	11,790
Restricted cash	4(b)	614	288
Trade receivables	6	1,980	2,130
Due from customers on contract	5	852	1,535
Loans receivable, current	9	515	847
Inventory	8	6,622	5,722
Prepays and other receivables	7	678	833
Income taxes receivable	21	540	986
		<b>18,000</b>	<b>24,131</b>
<b>Non-current assets</b>			
Loans receivable, non-current	9	268	285
Deposits and other receivables		51	75
Plant and equipment	11	5,539	4,538
Right-of-use assets	14(a)	1,968	1,405
Intangible assets	10	21	207
		<b>7,847</b>	<b>6,510</b>
<b>Total assets</b>		<b>25,847</b>	<b>30,641</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Loan payable	12	4	-
Trade and other payables	13	4,476	4,421
Customer deposits and deferred revenue	5	1,311	1,323
Current portion of lease liabilities	14(b)	820	753
Current portion of other liability	15(b)	5	121
		<b>6,616</b>	<b>6,618</b>
<b>Non-current liabilities</b>			
Loan payable	12	220	191
Long-term portion of lease liabilities	14(b)	1,383	839
Long-term portion of other liability	15(b)	-	5
		<b>1,603</b>	<b>1,035</b>
<b>Total liabilities</b>		<b>8,219</b>	<b>7,653</b>
<b>Equity</b>			
Share capital	16(b)	79,559	79,272
Warrants	16(c)	1,040	1,040
Contributed surplus		11,079	10,234
Foreign currency translation reserve		625	190
Deficit		(74,675)	(67,748)
<b>Total equity</b>		<b>17,628</b>	<b>22,988</b>
<b>Total liabilities and equity</b>		<b>25,847</b>	<b>30,641</b>
<b>Contingencies and commitments</b>	15(a)		
<b>Subsequent event</b>	24		

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

# EnWave Corporation

## Consolidated Statements of Changes in Equity

### For the years ended September 30, 2022 and 2021

(expressed in thousands of Canadian dollars)

	Share capital		Warrants \$	Contributed surplus \$	Foreign currency translation reserve \$	Deficit \$	Total \$
	Amount	Value \$					
<b>Balance – September 30, 2020</b>	111,409,755	79,840	1,641	9,151	775	(63,056)	28,351
Net loss for the period	-	-	-	-	-	(4,125)	(4,125)
Effects of foreign currency translation	-	-	-	-	(585)	-	(585)
Expiry of warrants	-	-	(601)	601	-	-	-
Shares repurchased and cancelled (note 16b)	(1,779,700)	(1,296)	-	-	-	(567)	(1,863)
Shares issued on exercise of stock options	410,000	510	-	(124)	-	-	386
Shares issued with restricted share rights	165,000	218	-	(218)	-	-	-
Restricted share rights	-	-	-	290	-	-	290
Stock-based compensation	-	-	-	534	-	-	534
<b>Balance – September 30, 2021</b>	<b>110,205,055</b>	<b>79,272</b>	<b>1,040</b>	<b>10,234</b>	<b>190</b>	<b>(67,748)</b>	<b>22,988</b>
Net loss for the period	-	-	-	-	-	(6,927)	(6,927)
Effects of foreign currency translation	-	-	-	-	435	-	435
Expiry of warrants	-	-	-	-	-	-	-
Shares repurchased and cancelled (note 16b)	-	-	-	-	-	-	-
Shares issued on exercise of stock options	-	-	-	-	-	-	-
Shares issued with restricted share rights	235,000	287	-	(287)	-	-	-
Restricted share rights	-	-	-	219	-	-	219
Stock-based compensation	-	-	-	913	-	-	913
<b>Balance – September 30, 2022</b>	<b>110,440,055</b>	<b>79,559</b>	<b>1,040</b>	<b>11,079</b>	<b>625</b>	<b>(74,675)</b>	<b>17,628</b>

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



**EnWave Corporation**  
**Consolidated Statements of Cash Flows**  
**For the years ended September 30, 2022 and 2021**

(expressed in thousands of Canadian dollars)

	Note	2022 \$	2021 \$
<b>Cash flows from operating activities</b>			
Net loss for the year		(6,927)	(4,125)
Items not affecting cash:			
Depreciation and amortization		2,548	2,513
Stock-based compensation	16(d)	1,132	824
Loss on disposal of assets	11	32	6
Finance expense (income), net		26	(7)
Income tax recovery	21	(28)	(707)
Inventory write-offs	8	56	241
Foreign exchange gain		(96)	(15)
		<u>(3,257)</u>	<u>(1,270)</u>
Changes in non-cash working capital:			
Restricted cash		(326)	(38)
Trade receivables		241	8,366
Prepays and other receivables		347	(329)
Loan receivables		385	(1,140)
Inventory		(901)	647
Trade and other payables		(315)	(2,938)
Payment received from security deposits		446	25
Due from customers on contract and deferred revenue		633	(1,463)
		<u>(2,747)</u>	<u>1,860</u>
Net cash (used in) generated from operating activities before income taxes		484	177
Incomes taxes recovered		<u>(2,263)</u>	<u>2,037</u>
Net cash (used in) generated from operating activities		<u>(2,263)</u>	<u>2,037</u>
<b>Cash flows from investing activities</b>			
Acquisition of plant and equipment		(2,691)	(1,990)
Proceeds from disposition of plant and equipment		99	75
Acquisition of intangible assets		(6)	(71)
Finance income received		76	162
		<u>(2,522)</u>	<u>(1,824)</u>
Net cash used in investing activities		<u>(2,522)</u>	<u>(1,824)</u>
<b>Cash flows from financing activities</b>			
Proceeds from exercise of stock options	16(d)	-	386
Repurchase of shares for cancellation	16(b)	-	(1,863)
Repayment of line of credit	12	-	(632)
Payment of lease principal liabilities	14(b)	(693)	(640)
Payment of lease interest	14(b)	(147)	(135)
Payment received from finance leases		30	83
Payment of other liability	15(b)	(129)	(133)
		<u>(939)</u>	<u>(2,934)</u>
Net cash used in financing activities		<u>(939)</u>	<u>(2,934)</u>
Cash used during the year		(5,724)	(2,721)
Effect of foreign exchange translation on cash		133	(201)
		<u>(5,591)</u>	<u>(2,922)</u>
<b>Decrease in cash and cash equivalents</b>		<b>(5,591)</b>	<b>(2,922)</b>
<b>Cash and cash equivalents - Beginning of the year</b>		<b>11,790</b>	<b>14,712</b>
<b>Cash and cash equivalents - End of the year</b>		<b>6,199</b>	<b>11,790</b>
<b>Non-cash transactions</b>			
Purchase of plant and equipment through accounts payable		225	250
Purchase of inventory through accounts payable		325	487

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

# EnWave Corporation

## Notes to the Consolidated Financial Statements

September 30, 2022 and 2021

(expressed in thousands of Canadian dollars)

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### 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 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 annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These consolidated financial statements were approved for issuance by the Board of Directors on December 15, 2022.

#### Critical accounting estimates and judgements

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 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 which 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 \$139 (2021 - \$1,112).

# EnWave Corporation

## Notes to the Consolidated Financial Statements

September 30, 2022 and 2021

(expressed in thousands of Canadian dollars)

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### *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 judgment in evaluating whether it is reasonably certain whether or not to exercise the option to extend or terminate the lease, and any modifications to the lease term will result in the revaluation of the lease. The present value of the lease payments is dependent on the incremental borrowing rate used, 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 judgment. 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

# EnWave Corporation

## Notes to the Consolidated Financial Statements

September 30, 2022 and 2021

(expressed in thousands of Canadian dollars)

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initial grant date. Changes in assumptions used to estimate the fair value could result in materially different results.

### 3 Significant accounting policies

The following policies have been applied to the consolidated financial statements presented:

#### **Basis of measurement**

These consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB. The consolidated financial statements have been prepared under the historical cost convention, except for derivative contracts which are measured at fair value.

#### **Accounting standards and amendments issued and not yet adopted**

The following IFRS standards have been issued by the ISAB and pronouncements that are not expected to have a significant impact have been excluded.

#### ***Amendments to IAS 1: Classification of Liabilities as Current or Non-Current***

The amendment clarifies the classification requirements to determine if a liability with an uncertain settlement date should be presented as current or non-current in the statement of financial position. Under the new requirement, the assessment of whether a liability is presented as current or non-current is based on the contractual arrangements in place as at the reporting date and does not impact the amount or timing of recognition.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and is to be applied retrospectively, with earlier application permitted. The Company has evaluated the implications of adopting the amendment and does not believe there to be any significant impact on the Company's consolidated financial statements

#### **Principles of consolidation and non-controlling interest**

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies. Subsidiaries are consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

The Company's subsidiaries are:

- REV Technology Corporation, incorporated in the state of Delaware, USA (100% owned by the Company)
- EnWave USA Corporation, incorporated in the state of Delaware, USA (100% owned by the Company)
- NutraDried Food Company, LLC, a limited liability corporation incorporated in Washington, USA (EnWave USA Corporation owns 100%)

# EnWave Corporation

## Notes to the Consolidated Financial Statements

September 30, 2022 and 2021

(expressed in thousands of Canadian dollars)

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Intercompany balances and transactions, including income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

When the Company ceases to consolidate a subsidiary due to a loss of control of the entity, the investment in the entity is re-measured to its fair value with the change in carrying amount recognized in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

### Foreign currency translation

#### *Functional and reporting currency*

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These consolidated financial statements are presented in Canadian dollars, which is the Company's reporting currency.

#### *Transactions and balances*

Foreign currency transactions are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions or the date of valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of the monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive loss.

#### *Consolidation*

The results and financial position of all the companies that have a functional currency different from the reporting currency are translated into the reporting currency as follows:

- assets and liabilities are translated at the closing rate at the date of that statement of financial position;
- income and expenses are translated at average exchange rates; and
- all resulting exchange differences are recognized in other comprehensive income (loss) and accumulated in other comprehensive income (loss) within equity.

### Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

# EnWave Corporation

## Notes to the Consolidated Financial Statements

September 30, 2022 and 2021

(expressed in thousands of Canadian dollars)

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### Restricted cash

Restricted cash is cash that has been pledged as collateral for the Company's foreign exchange derivative contracts, corporate credit card and banking facilities.

### Financial instruments

The Company classifies its financial instruments based on the purpose for which the financial assets and liabilities were acquired. Management determines the classification of the financial assets and liabilities at initial recognition. The Company has the following types of financial assets and liabilities:

- a) **Loans and receivables:** Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise trade receivables, loan receivables, cash and cash equivalents, due from customers on contract and restricted cash, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received and subsequently carried at amortized cost using the effective interest rate method with gains and losses recorded in the consolidated statement of loss.
- b) **Other financial liabilities:** Other financial liabilities are carried at amortized cost and include trade and other payables, loan payable, amounts due to related parties, customer deposits and deferred revenue, and other liability. They are initially recognized at the amount required to be paid, and subsequently measured at amortized cost using the effective interest rate method with gains or losses recorded in the consolidated statement of loss.
- c) **Derivative contracts:** Derivative contracts are categorized as financial assets and liabilities carried at fair value through profit or loss and have not been designated in hedge accounting relationships. Derivative contracts are included in current assets and current liabilities, except for those with maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets and liabilities. Derivative assets are presented within prepaids and other receivables. Derivative liabilities are presented within trade and other payables.

### Impairment of financial and non-financial assets

#### *Financial assets*

The Company's financial assets that are subject to IFRS 9's expected credit loss model consist of loans and trade receivables, all of which are measured at amortized cost. While cash, cash equivalents and restricted cash are also subject to the impairment requirements of IFRS 9, the impairment loss is insignificant as all cash, cash equivalents and restricted cash are placed with high credit quality financial institutions.

For trade receivables and loan receivables, the Company applies the simplified expected credit loss model which requires the recognition of loss allowance based on lifetime expected credit loss. The Company has determined that due to extremely low credit risk from its receivables, the expected credit loss provision is de minimis.

# EnWave Corporation

## Notes to the Consolidated Financial Statements

September 30, 2022 and 2021

(expressed in thousands of Canadian dollars)

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### *Non-financial assets*

The carrying amounts of the Company's non-financial assets, which includes intangible assets, are reviewed at each reporting date to determine whether there are any events or changes that are indicators of impairment. If such an indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together in the smallest group of assets that generate cash inflows from continuing use that is largely independent of the cash inflows of other assets or groups of assets or CGUs. The recoverable amount of an asset or CGU is the greater of its value in use and fair value less costs to sell. In assessing value in use, future discounted cash flows are estimated. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the consolidated statement of loss. The Company evaluates impairment losses for potential reversals (other than goodwill) when events or circumstances warrant such consideration.

### **Inventory**

Inventories comprise machine parts and work-in-progress, food products and packaging supplies. The cost of inventory includes direct material costs, direct labour, and an allocation of variable and fixed manufacturing overhead, including depreciation. Inventories are valued at the lower of cost and net realizable value. Cost is determined using the weighted average basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. If the carrying value exceeds the net realizable amount, a write-down is recognized. The write-down may be reversed in a subsequent period if the circumstances that caused it no longer to exist.

The Company rents its machinery on a short-term basis to companies evaluating the machinery. When the term of the rental agreement is less than 12 months, the machinery is recorded as an asset in inventory. Amortization is not recorded where leases are short term in nature as the asset can be redeployed without significant modification. When the term of the rental agreement exceeds 12 months, the machinery is recorded as an asset in plant and equipment as commercial equipment and amortized to income.

### **Plant and equipment**

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. Repairs and maintenance costs are charged to the consolidated statement of loss during the period in which they are incurred. Depreciation is provided using the straight-line method at the following annual rates:

Office plant and equipment	3 to 5 years
Manufacturing plant and equipment	3 to 5 years
Commercial equipment	5 years
Leasehold improvements	Shorter of lease term or useful life

The Company allocates the amount initially recognized in respect of an item of plant and equipment to its significant parts and depreciates separately each such part. The carrying amount of a replaced part is

# EnWave Corporation

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derecognized when replaced. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

### 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.

#### *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.



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### Intangible assets

The Company's intangible assets are stated at cost less accumulated amortization and include acquired licensed technology with finite useful lives. These assets are capitalized and amortized on a straight-line basis over their expected useful lives as follows:

Computer software	3 years
Acquired patents and technology licenses	Over the period of the agreement of 5 to 10 years

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The Company evaluates the recoverability of intangible assets based on the expected utilization of the underlying technologies.

### Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated and discounted where the effect is material. The Company's provisions include estimates in relation to warranties offered on sales of machines.

### Share capital

Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

### Loss per share

Basic loss per share is calculated by dividing the net loss for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the period.

Diluted loss per share is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The Company's potentially dilutive common shares comprise stock options, restricted share rights ("RSRs") and warrants.

### Revenue recognition

#### *Equipment construction contracts*

The Company designs and builds customized dehydration equipment to meet customers' specific needs. The Company typically receives a deposit prior to starting work on an equipment contract and receives interim payments as work progresses. The Company recognizes a liability for advance payments in excess of revenue recognized and presents it as contract liability on the consolidated statement of financial position in customer deposits and deferred revenue. The advance payment typically is not considered a significant financing component because it is used to meet working capital demands that can be higher in the early stages of a contract.

# EnWave Corporation

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The Company receives payments from customers based on a billing schedule, as established in the equipment purchase contracts. Amounts are billed as work progresses in accordance with the terms of the contract, either upon achievement of contractual milestones or at periodic intervals.

The Company generally recognizes revenue over time when an equipment purchase contract is for a customized machine design per the customer's specification. Revenue is recognized based on the extent of progress towards completion of the performance obligation. The selection of the method to measure progress towards completion requires judgement and the Company typically uses the cost-to-cost measure of progress for contracts because it best depicts the transfer of assets to the customer which occurs as costs are incurred on contracts. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues are recorded proportionately as costs are incurred. Costs to fulfil the performance obligation are recognized as cost of goods sold in the period they are incurred. Typically, the customized machine contracts of the Company do not have a duration of greater than 12 months, and the Company has applied the practical expedient under IFRS 15.121.

Management must make assumptions and estimates regarding the measurement of progress towards completion of the performance obligation over time. These assumptions and estimates relate to the complexity of the work being performed, achievement of technical specifications and milestone events, and the overall estimated cost, including materials, labour and overhead, to meet the performance obligations.

### *Product sales*

The Company manufactures and sells food products in the consumer market. Revenue is measured at the fair value of the amount of consideration to which the Company expects to be entitled, including variable consideration, if any, to the extent that it is highly probable that a significant reversal will not occur. These criteria are generally met at the time the product is shipped and when control transfers to the customer. Revenue is measured based on the price specified in the sales contract and net of discounts. Discounts and certain promotional costs are recorded as a reduction of revenue. At the end of the period any unpaid discounts, trade expenses and promotional costs are recorded in accrued liabilities. In many situations, the Company uses brokers to sell the products and will pay a sales commission. Sales commissions are recorded as sales and marketing expenses and are not recorded net against revenue from the sale of products.

### *Equipment rental fees*

The Company rents its dehydration equipment on a short-term basis to certain companies in the technology evaluation process. The rental income is recorded on a straight-line basis over the rental period.

### *Equipment sales contracts*

The Company builds and installs small-scale dehydration equipment of standardized designs. The Company typically receives a deposit when the order for a machine is placed, a second deposit prior to the shipment of the machine, and the final payments become due upon installation of the machine. The Company will recognize a liability in advance of recognizing revenue for the deposits received prior to installation. Revenue from the sale of small-scale, standardized dehydration equipment is recognized at a point in time which is generally upon completion of installation of the machine at the customer's facility.

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### *Royalties and licensing fees*

The Company licenses its technology and charges sales-based or usage-based royalties to its licensees. Royalties and licensing fees are recognized at the time the subsequent sale or usage occurs, and when there is a binding right to receive such payments pursuant to the terms of the relevant agreement, which is the period the royalties are generated and earned.

### **Research and development**

Research costs are expensed as incurred in the consolidated statement of loss. Development costs are expensed as incurred unless capitalization criteria under IFRS are met for deferral and amortization.

### **Stock-based compensation**

The Company grants stock options and RSRs to certain employees and directors of the Company as equity settled, stock-based compensation. The Company applies the fair value method of accounting for stock-based compensation. The fair value at grant date of stock options is estimated using the Black-Scholes option-pricing model. The fair value of RSRs is measured based on the fair value of the underlying shares on the grant date. Compensation cost is recognized over the expected vesting period of the stock-based compensation. The Company estimates the number of units expected to vest at the grant date and revises the estimate as necessary if subsequent information indicates that the actual number of units vesting differs significantly from the original estimate.

### **Current and deferred income taxes**

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related taxable benefit will be realized. Deferred tax is measured at the tax rates that are expected to apply to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. To the extent that future taxable income and the application of existing tax laws differ significantly from the Company's estimate, the ability of the Company to realize the deferred tax assets could be impacted.

## **4 Cash and cash equivalents and restricted cash**

### a) Cash and cash equivalents

As at September 30, 2022, the Company had \$6,199 (2021 - \$11,790) in cash funds held in current accounts.

# EnWave Corporation

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b) Restricted cash

As at September 30, 2022, the Company had a \$614 (2021 - \$288) restricted cash deposit held as collateral for the Company's letter of credit, 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 receivables are recognized when the right to consideration becomes unconditional.

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

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

	2022 \$	2021 \$
Due from customers on contract	852	1,535
Customer deposits and deferred revenues	(1,311)	(1,323)
	<u>(459)</u>	<u>212</u>

During the year ended September 30, 2022, the Company recognized revenue from equipment sales and construction contracts of \$1,129 (2021 - \$1,652) that was included as deferred revenue at the beginning of the period.

### 6 Trade receivables

The following amounts are receivables from customers in the normal course of business:

	2022 \$	2021 \$
Trade receivables	1,980	2,130
	<u>1,980</u>	<u>2,130</u>

The company's provision for expected credit losses is de minimis.

# EnWave Corporation

## Notes to the Consolidated Financial Statements

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### 7 Prepaids and other receivables

	2022 \$	2021 \$
Prepaid expenses	586	708
Indirect tax receivable	66	95
Other receivables	19	-
Lease receivables	7	30
	<u>678</u>	<u>833</u>

### 8 Inventory

	2022 \$	2021 \$
Machine parts and work-in-progress	3,550	3,060
Food products	2,470	2,319
Packaging supplies	602	343
	<u>6,622</u>	<u>5,722</u>

During the year ended September 30, 2022, the Company recorded \$56 (2021 - \$241) of inventory write-downs related to food products and machine revenues. This was recognized as an expense and included in direct costs in the condensed consolidated interim statements of loss.

### 9 Loans receivable

	2022 \$	2021 \$
Current	515	847
Non-current	268	285
	<u>783</u>	<u>1,132</u>

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 2 to 31 months and are amortized with monthly blended payments of interest and principal.

# EnWave Corporation

## Notes to the Consolidated Financial Statements

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### 10 Intangible assets

	Acquired patents and technology licenses \$	Computer software \$	Total \$
<b>Year ended September 30, 2021</b>			
Opening net book value	319	28	347
Additions	3	75	78
Amortization	(191)	(27)	(218)
Closing net book value	<u>131</u>	<u>76</u>	<u>207</u>

#### At September 30, 2021

Cost	9,587	177	9,764
Accumulated amortization	(9,456)	(101)	(9,557)
Net book value	<u>131</u>	<u>76</u>	<u>207</u>

	Acquired patents and technology licenses \$	Computer software \$	Total \$
<b>Year ended September 30, 2022</b>			
Opening net book value	131	76	207
Additions	-	6	6
Disposals	-	(57)	(57)
Amortization	(114)	(22)	(136)
Currency translation adjustment	1	-	1
Closing net book value	<u>18</u>	<u>3</u>	<u>21</u>

#### At September 30, 2022

Cost	9,587	126	9,713
Accumulated amortization	(9,569)	(123)	(9,692)
Net book value	<u>18</u>	<u>3</u>	<u>21</u>

As at September 30, 2022, the remaining amortization period for intangible assets ranges from one month to five years (2021 – two months to ten years).

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## Notes to the Consolidated Financial Statements

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### 11 Plant and equipment

	Office plant and equipment \$	Manufacturing plant and equipment \$	Commercial equipment \$	Leasehold improvements \$	Assets under development \$	Total \$
<b>Year ended September 30, 2021</b>						
Opening net book value	265	3,055	60	448	165	3,993
Additions	58	478	-	90	1,615	2,241
Disposals - cost	(6)	(322)	-	(3)	(7)	(338)
Disposals – accumulated depreciation	5	251	-	1	-	257
Depreciation	(132)	(1,110)	(19)	(193)	-	(1,454)
Currency translation adjustments	(5)	(149)	-	(7)	-	(161)
Closing net book value	185	2,203	41	336	1,773	4,538
<b>At September 30, 2021</b>						
Cost	583	8,129	95	1,409	1,773	11,989
Accumulated depreciation	(398)	(5,926)	(54)	(1,073)	-	(7,451)
Net book value	185	2,203	41	336	1,773	4,538

	Office plant and equipment \$	Manufacturing plant and equipment \$	Commercial equipment \$	Leasehold improvements \$	Assets under development \$	Total \$
<b>Year ended September 30, 2022</b>						
Opening net book value	185	2,203	41	336	1,773	4,538
Additions	10	1,202	318	168	959	2,657
Disposals - cost	(26)	(472)	(17)	-	(9)	(524)
Disposals – accumulated depreciation	25	399	-	-	-	424
Depreciation	(111)	(1,160)	(167)	(283)	-	(1,721)
Reclassification	-	142	1,244	1,337	(2,723)	-
Currency translation adjustments	4	153	-	8	-	165
Closing net book value	87	2,467	1,419	1,566	-	5,539
<b>At September 30, 2022</b>						
Cost	567	9,001	1,640	2,914	-	14,122
Accumulated depreciation	(480)	(6,534)	(221)	(1,348)	-	(8,583)
Net book value	87	2,467	1,419	1,566	-	5,539

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### 12 Loan payable

	2022	2021
	\$	\$
Line of credit (i)	-	-
Economic Injury Disaster Loan (ii)	224	191
Total	<u>224</u>	<u>191</u>
Current (i)	4	-
Non-Current (ii)	220	191
Total	<u>224</u>	<u>191</u>

- i) The Company's subsidiary, NutraDried, has a credit line agreement for up to US\$500 that is payable on demand. The credit facility bears interest rate at the Wall Street Journal Prime Rate plus 1.5%, with a floor of 4.25%. The amount outstanding at September 30, 2022 is \$nil (2021 - \$nil). NutraDried is subject to current ratio and leverage ratio covenants under the terms of the credit facility.
- ii) On June 15, 2021, NutraDried received proceeds from an Economic Injury Disaster Loan ("EIDL") with the U.S. Small Business Administration of \$224 (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 as of December 15, 2022. The EIDL loan is secured by all tangible and intangible personal property, including, but not limited to inventory and equipment.

### 13 Trade and other payables

	2022	2021
	\$	\$
Trade payables	1,390	1,755
Accrued liabilities	1,304	728
Personnel related accruals	1,059	1,632
Security deposits	472	-
Provision for warranty	251	306
Total	<u>4,476</u>	<u>4,421</u>

### 14 Leases

- a) The following is the carrying amounts of right-of-use assets recognized and the movements during the year:

Leased buildings:	2022	2021
	\$	\$
<b>Balance, October 1</b>	1,405	1,301
Lease modifications	1,273	838
Depreciation expense	(754)	(681)
Currency translation adjustments	44	(53)
<b>Balance, September 30</b>	<u>1,968</u>	<u>1,405</u>



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

	2022 \$	2021 \$
<b>Balance, October 1</b>	1,592	1,446
Lease additions	1,273	835
Lease payments	(840)	(775)
Finance expense on lease liabilities	147	135
Changes due to foreign exchange	31	(49)
<b>Balance, September 30</b>	<u>2,203</u>	<u>1,592</u>
Current	820	753
Non-current	<u>1,383</u>	<u>839</u>
	<u>2,203</u>	<u>1,592</u>

As at September 30, 2022, the lease liabilities are payable on an undiscounted basis as follows:

	Undiscounted lease payments \$
Less than one year	962
One to five years	1,527
More than five years	88
	<u>2,577</u>

- c) The following are the amounts recognized in the consolidated statements of loss:

	2022 \$	2021 \$
Income from subleasing right-of-use assets	52	49
Depreciation expense of right-of-use assets	(754)	(681)
Interest expense on lease liabilities	(147)	(135)
Expenses relating to variable lease payments not included in lease liabilities	(243)	(210)
Total amount recognized in net loss	<u>(1,092)</u>	<u>(977)</u>

The total cash outflow for leases in 2022 was \$1,009. The Company has no lease contracts that have not commenced as at September 30, 2022.

## 15 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, plant facilities, and laboratory facilities. The Company also pays additional rent to cover its share of operating costs and property

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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 comprised of office equipment and manufacturing equipment.

At September 30, the future minimum lease payments, including operating costs, under these non-cancellable leases were as follows:

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Less than 1 year	10	53
Between 1 and 5 years	4	20
More than 5 years	-	-
Total	<u>14</u>	<u>73</u>

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 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. The discounted minimum annual royalty amounts are recorded as a liability. As at September 30, 2022, the remaining discounted balance of the liability is \$5 (September 30, 2021 - \$126) and is payable on an undiscounted basis as follows:

	<b>Undiscounted royalties payable US\$</b>	<b>Undiscounted royalties payable CA\$</b>
2023	4	5
Total	<u>4</u>	<u>5</u>

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The table below provides a reconciliation of the changes in other liability arising from financing activities:

	<b>2022</b>	<b>2021</b>
	\$	\$
<b>Balance, September 30, 2021</b>	126	256
Payments made	(129)	(133)
Non-cash changes		
Interest expense	6	15
Foreign exchange	2	(12)
<b>Balance, September 30, 2022</b>	<u>5</u>	<u>126</u>

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 at September 30, 2022.

On May 13, 2022, a purported class action proceeding was commenced in the United States District Court for the Southern District of New York against NutraDried, the Company's subsidiary, on behalf of visually impaired or legally blind individuals in the United States that attempted to access the Company's website, and who were allegedly denied access to the equal enjoyment of goods and/or services during the period of May 13, 2019 to May 13, 2022. The complaint alleged, inter alia, that the Company's mooncheese.com website failed to accommodate persons with disabilities according to the *American Disabilities Act*, and unlawfully discriminates to deny such persons the opportunity to participate, or benefit from, the Company's product and services. The Company settled the claim and it was withdrawn on September 29, 2022.

## 16 Share capital

- a) Authorized: unlimited number of voting common shares without par value. Issued and outstanding: 110,440,055

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

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- b) Issued and fully paid:

	<b>Number</b>	<b>Share capital Value \$</b>
<b>Balance – October 1, 2020</b>	<b>111,409,755</b>	<b>79,840</b>
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)
<b>Balance – September 30, 2021</b>	<b>110,205,055</b>	<b>79,272</b>
Shares issued on vesting of restricted share rights	235,000	287
<b>Balance – September 30, 2022</b>	<b>110,440,055</b>	<b>79,559</b>

- c) Warrants

The continuity of share purchase warrants during the years ended September 30, 2022 and 2021 is as follows:

	<b>Number of warrants</b>	<b>Weighted average exercise price \$</b>	<b>Fair value at grant date \$</b>
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)	<b>5,012,202</b>	<b>1.50</b>	<b>0.27</b>
Balance – September 30, 2022 (ii)	<b>5,012,202</b>	<b>1.50</b>	<b>0.27</b>

- 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 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

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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 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.

The changes in options for the years ended September 30, 2022 and 2021 were as follows:

	2022		2021	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding, beginning of the year	7,160,667	1.44	6,975,667	1.46
Options granted	1,905,000	0.90	1,272,000	1.20
Options exercised	-	-	(410,000)	0.94
Options expired or forfeited	(737,400)	1.21	(677,000)	1.50
<b>Outstanding, end of the year</b>	<b>8,328,267</b>	<b>1.33</b>	<b>7,160,667</b>	<b>1.44</b>
<b>Exercisable, end of the year</b>	<b>6,523,265</b>	<b>1.44</b>	<b>5,683,917</b>	<b>1.50</b>

The weighted average fair value of options granted during the year ended September 30, 2022 was \$0.43 per option (2021 - \$0.54). The weighted average remaining contractual life of the outstanding stock options as at September 30, 2022 is 2.52 years (2021-2.87).

The following weighted average assumptions were used in calculating the fair value of the stock options granted using the Black-Scholes model for the years ended September 30, 2022 and 2021:

	2022	2021
Risk-free interest rate	1.46%	0.60%
Expected life	3.64 years	3.60 years
Estimated volatility	64%	63%
Forfeiture rate	2.19%	1.99%
Dividend rate	0.00%	0.00%

The Company estimates volatility by using the average historical volatility of the common shares of the Company.

# EnWave Corporation

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Stock options outstanding as at September 30, 2022 have the following expiry dates and exercise prices:

Year of expiry	Exercise price per share \$	Number of options
2023	1.07 – 1.45	2,246,267
2024	1.37 – 2.19	1,865,000
2025	1.06 – 1.25	1,250,000
2026	0.90 – 1.65	2,917,000
2027	0.63 – 0.97	50,000
		8,328,267

During the year ended September 30, 2022, the Company recorded stock-based compensation expense of \$1,132 (2021 - \$824), which includes compensation expense for stock options and for RSRs. The fair value of each option and RSR is accounted for in the consolidated statement of loss over the vesting period, and the related credit is included in contributed surplus.

e) Restricted share rights

The Company has reserved up to a maximum of 1,895,000 common shares to be issued as RSRs under its restricted share rights plan (“RSR Plan”). The common shares reserved under the RSR Plan, together with stock options outstanding under the Option Plan, cannot exceed in aggregate, 10% of the issued and outstanding shares of the Company.

The changes in RSRs for the years ended September 30, 2022 and 2021 were as follows:

	2022		2021	
	Number of RSRs	Weighted average grant date fair value \$	Number of RSRs	Weighted average grant date fair value \$
Outstanding, beginning of the year	715,000	1.13	790,000	1.15
RSRs granted	275,000	0.83	95,000	1.32
RSRs vested	(235,000)	1.22	(165,000)	1.32
RSRs forfeited	-	-	(5,000)	1.34
<b>Outstanding, end of the year</b>	<b>755,000</b>	<b>1.02</b>	<b>715,000</b>	<b>1.13</b>

During the year ended September 30, 2022, stock-based compensation expense of \$219 (2021 - \$290) was recorded for the RSRs vested during the period. RSRs vest three years from the award date, in accordance with the RSR Plan.

# EnWave Corporation

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### 17 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 years ended September 30, 2022 and 2021 comprises the following expenses:

	2022 \$	2021 \$
Salaries, bonuses, and short-term employee benefits	1,785	1,541
Stock-based compensation	592	401
	<u>2,377</u>	<u>1,942</u>

b) Purchases from related parties

The Company had purchases from related parties for the years ended September 30, 2022 and 2021 in the normal course of business as shown in the table below:

	2022 \$	2021 \$
Directors' fees	180	200
Stock-based compensation	98	191
	<u>278</u>	<u>391</u>

### 18 Revenues

a) Revenue breakdown for the years ended September 30, 2022 and 2021 is as follows:

	2022 \$	2021 \$
Product sales, net	12,643	14,010
Equipment sales	1,605	2,981
Equipment construction contracts	7,422	7,804
Royalties and licensing fees	1,352	919
Equipment rental fees, testing fees and other	681	762
	<u>23,703</u>	<u>26,476</u>

Included in due from customers on contract on the consolidated statement of financial position is \$852 (2021 - \$1,535) related to work performed on equipment construction contracts where revenue has been recognized; however, the amounts are still to be invoiced to the customer based on the contract terms.

Individual customers representing over 10% of the total revenue during the years ended September 30, 2022 and 2021 were as follows:

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Customer	2022		2021	
	\$	%	\$	%
A	2,397	10	-	-
Others	21,306	90	26,476	100
	<u>23,703</u>	<u>100</u>	<u>26,476</u>	<u>100</u>

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

Customer	2022		2021	
	\$	%	\$	%
X	348	18	268	12
Y	281	14	209	10
Others	1,351	68	1,653	78
	<u>1,980</u>	<u>100</u>	<u>2,130</u>	<u>100</u>

## 19 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 years ended September 30, 2022 and 2021 are shown below.

Details of expenses by nature	2022 \$	2021 \$
Cost of materials	12,434	14,906
Salaries, wages and employee expenses	9,463	8,975
Travel and promotional costs	2,278	1,784
Professional services	1,568	1,739
Depreciation of plant and equipment	2,548	2,294
Commissions on product sales	408	377
Rent	323	281
Office and courier	342	297
Other expenses	281	273
Bad debt	46	5
<b>Total expenses</b>	<u>29,691</u>	<u>30,931</u>

## 20 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 business affected by COVID-19. The qualified subsidy amounts received under the program are non-repayable. The amount of subsidy received from the Canadian federal government under the program during the year-ended



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September 30, 2022 was \$147 (2021 - \$1,339) and has been recorded as other income on the consolidated statement of loss.

### 21 Income taxes

The provision for income taxes is based on the combined federal and provincial statutory income tax rates. A reconciliation of income taxes at the statutory rate to actual income taxes is as follows:

	2022 \$	2021 \$
Net loss before taxes	(6,955)	(4,832)
Statutory tax rate	27.00%	27.00%
Income tax (recovery) at the statutory tax rate	(1,878)	(1,305)
Permanent differences	345	156
Effect of different statutory rates	289	314
Effect of unrecognized deferred tax assets	1,216	128
Income tax (recovery)	<u>(28)</u>	<u>(707)</u>

The Company's income tax is allocated as follows:

	2022 \$	2021 \$
Current tax (recovery)	(28)	(453)
Deferred tax (recovery)	-	(254)
Income tax (recovery)	<u>(28)</u>	<u>(707)</u>

The analysis of deferred tax liabilities is as follows:

	2021 \$	Charged to earnings \$	Charged to other comprehensive income \$	2022 \$
<b>Deferred tax liabilities</b>				
Property and equipment	(252)	252	-	-
Net Operating Losses	252	(252)	-	-
Total deferred tax liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

	2020 \$	Charged to earnings \$	Charged to other comprehensive income \$	2021 \$
<b>Deferred tax liabilities</b>				
Plant and equipment	(337)	320	17	-
Section 267 interest	69	(66)	(3)	-
Property and equipment	-	(250)	(2)	(252)
Net Operating Losses	-	250	2	252
Total deferred tax liabilities	<u>(268)</u>	<u>254</u>	<u>14</u>	<u>-</u>

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In the US, deferred tax assets are recognized for deductible temporary differences to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company did not recognize deferred income tax assets due to the uncertainty of future taxable profits in the US. The Company's unrecognized temporary differences are as follows:

	2022 \$	2021 \$
Section 267 interest	1,124	413
Right of Use asset	55	60
Accrued liabilities	34	450
Net operating losses	8,768	2,259
Inventory reserve	60	90
Total unrecognized deferred tax assets	<u>10,041</u>	<u>3,272</u>

In Canada, deferred tax assets are recognized for deductible temporary differences to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company did not recognize deferred income tax assets due to the uncertainty of future taxable profits in Canada. The Company's unrecognized temporary differences are as follows:

	2022 \$	2021 \$
Non-capital losses	24,095	21,890
Net capital losses	3,426	3,426
Scientific research and experimental development expenses	7,704	8,091
Investment tax credits	1,848	2,739
Plant and equipment and intangible assets	11,176	10,458
Lease liability	173	82
Other	153	824
Total unrecognized deferred tax assets	<u>48,575</u>	<u>47,510</u>

The Company has non-capital losses for Canadian income tax purposes of approximately \$24,095 (2021 - \$21,890) that are available to reduce future year's taxable income. These losses will expire from 2027 to 2040.

The Company has investment tax credits of Canadian income tax purposes of approximately \$1,848 (2021 - \$2,739) that are available to reduce future tax year's payable. These investment tax credits will expire from 2028 to 2039

## 22 Financial instruments and risk management

The Company's cash and cash equivalents, restricted cash, trade receivables, loan payable, trade and other payables, and lease liabilities are measured at amortized cost subsequent to initial measurement. Fair value measurement requires classification of financial instruments within a hierarchy that prioritizes the inputs to fair value measurement. When measuring the fair value of an asset or liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy, based on the inputs used in the valuation techniques, as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly;

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Level 3 – Inputs that are not based on observable market data.

### Fair values

The Company's financial assets and liabilities are classified into the following categories:

Cash and cash equivalents	Amortized cost
Restricted cash	Amortized cost
Trade receivables	Amortized cost
Due from customers on contract	Amortized cost
Loans receivable	Amortized cost
Income tax receivable	Amortized cost
Loan payable	Amortized cost
Trade and other payables	Amortized cost
Customer deposits and deferred revenue	Amortized cost
Income tax payable	Amortized cost
Lease liabilities	Amortized cost
Other liability	Amortized cost

The fair value of financial assets and liabilities classified as loans and receivables and other financial liabilities (excluding, lease receivable, lease liability and other liability) approximates their carrying value due to their short-term nature.

The Company uses derivative financial instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates. The fair value measurement of the foreign exchange derivatives is classified within Level 2 of the fair value hierarchy.

The carrying value of the loans receivables as at September 30, 2022 was \$783 (2021 - \$1,132) which approximates its fair value and is recorded at amortized cost. The carrying value of the loans receivable was determined based on the discounted future cash flows using rates related incremental borrowing rates.

The carrying value of the lease liabilities as at September 30, 2022 was \$2,203 (2021 - \$1,592) which approximates its fair value and is recorded at amortized cost. The carrying value of the lease liabilities was determined based on the discounted future cash flows using rates related incremental borrowing rates.

The Company does not hold any equity instruments that are measured at fair value or amortized costs during the years ended September 30, 2022, and 2021.

### Financial risk factors

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 consolidated 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

# EnWave Corporation

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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, ensures customers are reputable companies, filing a lien on the equipment in the country the machine resides and using the machine equipment as collateral.

The Company 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 September 30, 2022:

	Neither past due nor impaired	Past due but not impaired		
		0 – 30	31 – 90	91 – 365
Trade receivables	1,692	155	133	-
Due from customers on contract	852	-	-	-
Loans receivable	783	-	-	-
Income tax receivable	540	-	-	-
	<u>3,867</u>	<u>155</u>	<u>133</u>	<u>-</u>

### Liquidity risk

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

The Company manages liquidity risk through ongoing management and forecasting of cash flows, budgeting, and equity financings. Cash flow forecasting is performed to monitor cash requirements and to manage capital

# EnWave Corporation

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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. At September 30, 2022, 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. At September 30, 2022, the Company had cash and cash equivalents of \$6,199 to settle current liabilities of \$6,616.

a) Financial assets maturity table:

	0 – 30	31 – 90	91 – 365	Over 365
Cash and cash equivalents and restricted cash	6,199	-	614	-
Trade receivables	1,980	-	-	-
Due from customers on contract	190	662	-	-
Loans receivable	86	110	319	268
Indirect tax receivables	66	-	-	-
Income taxes receivable	-	-	540	-
	<u>8,521</u>	<u>772</u>	<u>1,473</u>	<u>268</u>

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

	0 – 30	31 – 90	91 – 365	Over 365
Loan payable	-	-	4	220
Trade and other payables	3,328	676	-	-
Customer deposits and deferred revenues	1,311	-	-	-
Security deposit payable	472	-	-	-
Lease liabilities	60	120	639	1,384
	<u>5,171</u>	<u>796</u>	<u>643</u>	<u>1,604</u>

### 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 and restricted cash. The Company earns interest on deposits based on current market interest rates, which during the year ended September 30, 2022 ranged from 0.65% to 3.7% (2021 – 0.40% to 0.45%). A 1% change in interest rates would affect the results of operations by approximately \$68 (2021 - \$115).

# EnWave Corporation

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### *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.

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 September 30, 2022, 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 to minimize exposure to foreign currencies. At September 30, 2022 and 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 loss for the years ended September 30, 2022 and 2021 as follows:

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
<b>Currency</b>		
US dollar	254	53

### **Capital management**

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

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

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

# EnWave Corporation

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### 23 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	September 30, 2022			September 30, 2021		
	EnWave \$	NutraDried \$	Total \$	EnWave \$	NutraDried \$	Total \$
<b>Assets</b>						
Trade receivables	813	1,167	1,980	898	1,232	2,130
Due from customers on contract	852	-	852	1,535	-	1,535
Loan Receivables	783	-	783	1,132	-	1,132
Inventory	3,550	3,072	6,622	3,060	2,662	5,722
Plant and equipment	3,252	2,287	5,539	2,192	2,346	4,538
Right-of-use assets	1,584	384	1,968	691	714	1,405
Intangible assets	13	8	21	127	80	207
	<u>10,847</u>	<u>6,918</u>	<u>17,765</u>	<u>9,635</u>	<u>7,034</u>	<u>16,669</u>
<b>Liabilities</b>						
Trade and other payables	2,621	1,855	4,476	2,946	1,475	4,421
Customer deposits and deferred revenue	1,311	-	1,311	1,323	-	1,323
Loan payable	-	224	224	-	191	191
Lease liabilities	1,764	439	2,203	811	781	1,592
Other liability	5	-	5	126	-	126
	<u>5,701</u>	<u>2,518</u>	<u>8,219</u>	<u>5,206</u>	<u>2,447</u>	<u>7,653</u>

Year ended	September 30, 2022			
	EnWave \$	NutraDried \$	Elimination adjustments \$	Total \$
Revenues – external customers	11,048	12,655	-	23,703
Revenues – other segments	1,500	-	(1,500)	-
Total revenues	<u>12,548</u>	<u>12,655</u>	<u>(1,500)</u>	<u>23,703</u>
Expenses	(13,795)	(18,533)	1,551	(30,777)
Other income	147	-	-	147
Net loss	<u>(1,100)</u>	<u>(5,878)</u>	<u>51</u>	<u>(6,927)</u>

Year ended	September 30, 2021			
	EnWave \$	NutraDried \$	Elimination adjustments \$	Total \$
Revenues – external customers	12,463	14,013	-	26,476
Revenues – other segments	1,459	-	(1,459)	-
Total revenues	<u>13,922</u>	<u>14,013</u>	<u>(1,459)</u>	<u>26,476</u>
Expenses	(14,058)	(19,724)	1,842	(31,940)
Other income	1,339	-	-	1,339
Net income (loss)	<u>1,203</u>	<u>(5,711)</u>	<u>383</u>	<u>(4,125)</u>

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 18 and account for approximately 47% of the

# EnWave Corporation

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consolidated revenues. Revenues for NutraDried relate to product sales referred to in note 17 and account for approximately 53% of the consolidated revenues.

### **24 Subsequent event**

On November 21, 2022, a purported class action proceeding was commenced in the Superior Court of the State of California for the County of Orange against NutraDried, the Company's subsidiary, on behalf of persons who purchased 3-ounce Moon Cheese® products in the State of California. The complaint alleged, inter alia, that the Company's 3-ounce Moon Cheese® products misled consumers based on the size of the package and the amount of snack product contained therein being commensurate with the size of the package. No provision has been recognized as at September 30, 2022.