



Financial Statements

Years ended:

September 30, 2009 and 2008

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Auditors' Report

To the Shareholders of EnWave Corporation

We have audited the balance sheets of EnWave Corporation as at September 30, 2009 and 2008 and the statements of operations, comprehensive loss and deficit and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2009 and 2008 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, BC

December 15, 2009

EnWave Corporation

BALANCE SHEETS

As at September 30

(Expressed in Canadian Dollars)

	2009	2008
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	1,785,459	913,683
Restricted cash [Note 2]	28,749	28,749
Receivables	53,110	84,272
Inventories	36,669	405,074
Prepaid expenses and deposits	41,580	33,760
	1,945,567	1,465,538
Equipment [Note 5]	265,150	183,849
	2,210,717	1,649,387
LIABILITIES		
Current		
Accounts payable and accrued liabilities	177,707	236,370
Due to related parties [Note 10]	49,517	21,998
Deferred revenue	15,888	12,000
	243,112	270,368
SHAREHOLDERS' EQUITY		
Share capital [Note 6]	11,343,483	9,365,455
Contributed surplus [Note 7]	2,456,423	1,873,169
Deficit	(11,832,301)	(9,859,605)
	1,967,605	1,379,019
	2,210,717	1,649,387

Nature of operations and going concern [Note 1]

Commitments [Note 9]

Subsequent events [Note 14]

Approved by the Directors:

"John McNicol"
Director

"Salvador Miranda"
Director

See accompanying notes

EnWave Corporation

STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

For the years ended September 30

(Expressed in Canadian Dollars)

	2009	2008
	\$	\$
Revenue:		
Product sales and other revenue	496,559	44,040
Rental revenue	-	30,000
	496,559	74,040
Cost of sales	(502,495)	-
	(5,936)	74,040
Expenses:		
General and administrative	643,843	588,728
Sales and marketing	104,989	43,987
Research and development	869,461	766,063
Stock-based compensation [Note 6(d)]	371,606	752,456
	1,989,899	2,151,234
Operating loss	(1,995,835)	(2,077,194)
Other income		
Interest and other income	23,139	29,172
Loss on disposal of equipment	-	(3,852)
Loss and comprehensive loss for the year	(1,972,696)	(2,051,874)
Deficit, beginning of the year	(9,859,605)	(7,807,731)
Deficit, end of the year	(11,832,301)	(9,859,605)
Loss per share (basic and diluted)	(0.05)	(0.06)
Weighted average number of shares outstanding		
- basic and diluted	41,257,737	35,405,032

See accompanying notes

EnWave Corporation
STATEMENTS OF CASH FLOWS
For the years ended September 30
(Expressed in Canadian Dollars)

	2009	2008
	\$	\$
Operating activities		
Loss and comprehensive loss for the year	(1,972,696)	(2,051,874)
Items not involving cash:		
Amortization	52,984	30,713
Loss on disposal of equipment	-	3,852
Stock-based compensation expense [Note 6(d)]	371,606	752,456
	(1,548,106)	(1,264,853)
Changes in non-cash operating working capital:		
Decrease (increase) in receivables	31,162	(46,669)
(Increase) decrease in prepaid expenses and deposits	(7,820)	11,300
Decrease (increase) in inventories	378,287	(296,167)
(Decrease) increase in accounts payable and accrued liabilities	(25,725)	62,974
Increase in amounts due to related parties	27,519	5,394
Increase in deferred revenue	3,888	12,000
	(1,140,795)	(1,516,021)
Financing activities		
Subscriptions of private placement received	2,204,000	1,065,150
Private placement costs	(131,955)	(64,140)
Exercise of warrants	54,152	-
Exercise of stock options [Note 6(d)]	16,167	144,000
	2,142,364	1,145,010
Investing activities		
Purchase of equipment	(129,793)	(131,461)
Net increase (decrease) in cash and cash equivalents	871,776	(502,472)
Cash and cash equivalents, beginning of the year	913,683	1,416,155
Cash and cash equivalents, end of the year	1,785,459	913,683
Supplementary Information:		
Interest paid in cash	-	-
Income taxes paid in cash	-	-
Non-cash transactions		
Purchase of equipment and inventory incurred through accounts payable	14,375	-

See accompanying notes

ENWAVE CORPORATION

Notes to Financial Statements

September 30, 2009 and 2008

(Expressed in Canadian dollars)

1. Nature of operations and going concern

EnWave Corporation was incorporated under the Canada Business Corporations Act on July 14, 1999. The Company is a developer of Radiant Energy Vacuum “*nutraREV™*”, “*bioREV™*”, “*freezeREV*” and “*powderREV*” drying technologies used to create high quality dehydrated food and health products. The Company’s mission is to lead the development of vacuum microwave processing systems for industrial applications in the food, feed, pharmaceutical, nutraceutical and chemical industries. Applications of the technology enable manufacturers to produce innovative, high quality products that cannot be produced using current techniques. Many of the processes producing these products have been granted patents.

While the accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and liquidation of liabilities during the normal course of operations, certain adverse conditions cast significant doubt upon the validity of this assumption. The Company has not yet realized profitable operations and has relied on non-operational sources of financing to fund operations and, as at September 30, 2009, has an accumulated deficit of \$11.8 million. The Company’s ability to continue as a going concern will depend on management’s ability to successfully execute its business plan, achieving profitable operations and obtaining additional financing. There is no assurance that these initiatives will be successful. If the going concern assumption is not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, and the reported net losses and balance sheet classifications used, and such adjustments could be material.

2. Significant accounting policies

Cash and cash equivalents

Cash and cash equivalents include unrestricted cash and all highly liquid financial instruments purchased with an original maturity of three months or less from the date of acquisition. The carrying value of the instruments, which is recorded at cost plus accrued interest, approximates fair value.

Restricted cash

Restricted cash represents cash that has been pledged for a Company credit card.

Inventories

Inventory is comprised of parts and products and is valued at the lower of cost, determined using the first-in, first-out basis, and net realizable value.

Long-lived assets impairment

Long-term assets are reviewed for impairment when changes in circumstances suggest their carrying value has become impaired. Management considers assets to be impaired if the carrying value exceeds the estimated undiscounted future projected cash flows from the use of the asset and its eventual disposition. If impairment is deemed to exist, the assets will be written down to fair value. Fair value is generally determined using a discounted cash flow analysis.

ENWAVE CORPORATION

Notes to Financial Statements

September 30, 2009 and 2008

(Expressed in Canadian dollars)

2. Significant accounting policies (cont'd.)

Equipment

Equipment is stated at cost less recognized investment tax credits.

Amortization of equipment is provided using the declining-balance method at the following annual rates:

Assets	Rate
Computer equipment	30%
Computer software	30%
Furniture, fixtures and tools	20%
Vehicles	30%
Lab and manufacturing equipment	20%

Investment tax credits

Investment tax credits earned from scientific research and experimental development are recorded when recovery of the credits is reasonably assured. Investment tax credits are applied against research and development expenses or the cost of equipment depending on whether the investment tax credit was on account of current expenditures or capital expenditures.

Revenue recognition

Revenues from product sales are recognized when goods are shipped and title and the benefits and risks of ownership of the product are transferred to the customer. Service revenues are recognized when performance of service is complete. For both of these types of arrangements, revenue is not recognized until the selling price is fixed or determinable, and collection is reasonably assured. Cash received in advance of these revenue recognition criteria is recorded as deferred revenue.

Revenue from product rentals is recognized on a straight-line basis over the term of the agreement.

Government assistance

Grants relating to capital expenditures are recorded as a reduction of the cost of such assets. Grants relating to current expenses are credited to income in the year the qualifying expenditures are made.

Research and development expenditures

Research costs are expensed as incurred. Drying technology development costs are expensed as incurred unless they meet the specific criteria for deferral at which time the development costs will be deferred to the extent that their recovery can reasonably be regarded as assured.

ENWAVE CORPORATION

Notes to Financial Statements

September 30, 2009 and 2008

(Expressed in Canadian dollars)

2. Significant accounting policies (cont'd.)

Share issue costs

Direct costs associated with the issuance of capital stock or special warrants are deducted from the related proceeds at the time of the issue.

Stock-based compensation

The fair value of stock option grants and all direct awards of stock to directors, officers, employees and non-employees are charged to expense.

The fair value of stock options is determined on the date of grant using the *Black-Scholes Option Pricing Model* with assumptions for: risk-free interest rates; dividend yields; expected volatility of the market price of the Company's common shares; and the expected life of the options. The fair value of direct awards of shares is determined as the market price of the Company's shares. The cost is recognized over the vesting period of the respective options using the straight-line basis.

Income taxes

Income taxes are accounted for using the asset and liability method pursuant to *Income Taxes* ("CICA 3465"), as recommended by the Canadian Institute of Chartered Accountants ("CICA"). Future taxes are recognized for the tax consequences of "temporary differences" by applying enacted or substantively enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. The effect on future taxes for a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. In addition, Section 3465 requires the recognition of future tax benefits to the extent that realization of such benefits is more likely than not.

Earnings (loss) per share

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share amounts are calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate.

Financial instruments

The Company has made the following classifications for its financial instruments:

- Cash and cash equivalents are classified as "Assets held for trading" and are measured at fair value at the end of each period with the resulting gains or losses recognized in operations;
- Receivables are classified as "Loans and receivables" and are recorded at amortized cost. Subsequent measurement of trade receivables is at amortized cost, less allowance for doubtful accounts;
- Accounts payable and accrued liabilities are classified as "Other financial liabilities" and are measured at amortized cost; and
- Due to related parties is classified as a financial liability and is measured at amortized cost.

ENWAVE CORPORATION

Notes to Financial Statements

September 30, 2009 and 2008

(Expressed in Canadian dollars)

2. Significant accounting policies (cont'd.)

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from those estimates.

Comparative figures

The comparative figures have been reclassified to conform to the current year presentation.

3. New accounting policies

Credit risk and the fair value of financial assets and financial liabilities

In January 2009, the EIC issued Abstract No. 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities* (EIC 173). EIC 173 requires an entity to take into account its own credit risk and credit risk of relevant counterparties in determining the fair values of financial assets and financial liabilities, including derivative instruments. This EIC, which was effective for the Company for the year-ended September 30, 2009, had no effect on the Company's financial statements.

Effective interest method – amendments to financial instruments – recognition and measurement

In June 2009, the CICA amended Section 3855 to clarify the application of the effective interest method to financial assets that were previously impaired. The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. This clarification had no effect on the Company's financial statements.

4. Future accounting policies

Business Combinations, consolidated financial statements and non-controlling interests

On January 5, 2009, the CICA issued three new accounting standards: Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements* and Section 1602, *Non-controlling Interests*. Section 1582 provides clarification as to what an acquirer must measure when it obtains control of a business, the basis of valuation and the date at which the valuation should be determined. Acquisition-related costs must be accounted for as expenses in the periods they are incurred, except for costs incurred to issue debt or share capital. Section 1601 establishes standards for preparing consolidated financial statements after the acquisition date; Section 1602 establishes standards for the accounting and presentation of non-controlling interest. These standards apply to business acquisitions with an acquisition date on or before the first annual reporting period beginning on or after January 1, 2011. These standards apply to the Company beginning October 1, 2011.

ENWAVE CORPORATION

Notes to Financial Statements

September 30, 2009 and 2008

(Expressed in Canadian dollars)

4. Future accounting policies (cont'd.)

Amendments to financial instruments – recognition and measurement

On August 20, 2009, the CICA amended Section 3855 relating to the accounting for debt instruments. The amendments changed the categories into which debt instruments are required and permitted to be classified and eliminated the distinction between debt securities and other debt instruments. As a result, debt instruments not quoted in an active market may be classified as loans and receivables, and impairment is assessed using the incurred credit loss model. Loans and receivables that a company intends to sell immediately or in the near term must be classified as held-for-trading and loans and receivables for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, must be classified as available-for-sale. The amendments also permit reclassification of financial assets from the held-for-trading and available-for-sale categories to the loans and receivables category in certain circumstances and require reversal of impairment losses relating to available-for-sale debt instruments when, in a subsequent period, the fair value of the instrument increases and the increase can be objectively related to an event occurring after the loss was recognized. The amendments apply to annual financial statements relating to fiscal years beginning on or after November 1, 2008. These amendments apply to the Company beginning October 1, 2009.

Amendments to financial instruments – disclosures

During 2009, the CICA amended Section 3862 to require disclosures about the inputs to fair value measurements, including their classification within a three-level hierarchy that prioritizes the inputs to fair value measurement, and amended requirements relating to liquidity risk disclosures. The amendments apply to annual financial statements relating to fiscal years ending after September 30, 2009. These amendments apply to the Company beginning October 1, 2009.

The Company is currently assessing the impact of these future accounting changes on its financial statements.

5. Equipment

	Cost	Accumulated amortization	Net book value
	\$	\$	\$
September 30, 2009			
Computer equipment	17,297	6,362	10,935
Computer software	18,555	7,185	11,370
Furniture, fixtures and tools	14,881	4,606	10,275
Vehicles	5,096	764	4,332
Lab and manufacturing equipment	432,267	204,029	228,238
	488,096	222,946	265,150
September 30, 2008			
Computer equipment	13,123	2,570	10,553
Computer software	13,546	3,385	10,161
Furniture, fixtures and tools	14,880	2,037	12,843
Lab and manufacturing equipment	312,262	161,970	150,292
	353,811	169,962	183,849

ENWAVE CORPORATION

Notes to Financial Statements

September 30, 2009 and 2008

(Expressed in Canadian dollars)

6. Share capital

(a) Authorized:

Unlimited number of common shares without par value.

Unlimited number of preferred shares, issuable in series.

(b) Issued and fully paid:

	Shares #	Amount \$
Balance, September 30, 2007	33,536,977	8,407,171
Shares issued on exercise of options	1,200,000	173,665
Shares issued for compensation bonus	153,071	68,882
Shares issued for cash at \$0.30 per unit ⁽ⁱ⁾	3,550,501	779,879
Share issue costs and finder's fees	33,740	(64,142)
Balance, September 30, 2008	38,474,289	9,365,455
Shares issued for compensation bonus ⁽ⁱⁱ⁾	157,708	47,313
Shares issued on exercise of options	153,333	27,249
Shares issued on exercise of warrants	180,507	71,338
Shares issued for cash at \$0.30 per unit ⁽ⁱⁱⁱ⁾	7,346,667	1,948,921
Share issue costs and finder's fees	187,827	(116,793)
Balance, September 30, 2009	46,500,331	11,343,483

- (i) On May 30, 2008, the Company closed a non-brokered private placement of 3,550,501 units at a price of \$0.30 per unit, with gross proceeds of \$1,065,150 in cash. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles its holder to purchase one common share of the Company at an exercise price of \$0.45 per share until May 30, 2010.

The fair value of the warrants issued with the May 30, 2008 private placement was estimated using the *Black-Scholes Option Pricing Model* with the following assumptions: risk-free interest rate of 3.01%, dividend yield of 0%, volatility of 73.73% and expected life of two years. The fair value assigned to the 3,550,501 share purchase warrants was \$285,273 and has been credited to contributed surplus (Note 7).

In connection with the private placement the Company paid finder's fees in cash for \$64,140, and issued 33,740 units with identical terms as those sold to investors.

Additionally, the Company issued 180,507 agent's warrants that entitle their holder to purchase one common share of the Company at a price of \$0.30 per share until May 30, 2009. The fair value of the agent's warrants was estimated using the *Black-Scholes Option Pricing Model* with the following assumptions: risk-free interest rate of 2.77%, dividend yield of 0%, volatility of 59.55% and expected life of one year. The fair value assigned to the 180,507 agent's warrants was \$17,187 and was credited to contributed surplus (Note 7).

ENWAVE CORPORATION

Notes to Financial Statements

September 30, 2009 and 2008

(Expressed in Canadian dollars)

6. Share capital (cont'd.)

(b) Issued and fully paid (cont'd).

(ii) On February 27, 2009, the Company issued an aggregate of 157,708 common shares at a value of \$0.30 per share to some of its directors, officers and employees as part of the annual compensation package of the Company.

(iii) On May 28, 2009, the Company closed a non-brokered private placement of 7,346,667 units at a price of \$0.30 per unit, raising \$2,204,000 in cash. Each unit consists of one common share and half of one common share purchase warrant. Each whole warrant entitles its holder to purchase one common share of the Company at an exercise price of \$0.45 per share until May 28, 2010.

The fair value of the warrants issued with the May 28, 2009 private placement was estimated using the *Black-Scholes Option Pricing Model* with the following assumptions: risk-free interest rate of 1.27%, dividend yield of 0%, volatility of 89.80% and expected life of one year. The fair value assigned to the 3,673,333 share purchase warrants was \$255,079 and has been credited to contributed surplus (Note 7).

In connection with the private placement the Company paid finder's fees in cash of \$81,615, and issued 187,827 units with identical terms as those sold to investors. The fair value of the agents' warrants attached to the units was estimated using the *Black-Scholes Option Pricing Model* with identical assumptions as the ones applied to investor warrants.

(c) Share purchase warrants:

	Number of warrants	Weighted average exercise price
Balance, September 30, 2007	3,131,237	\$0.59
Issued	3,764,748	\$0.44
Expired	(2,331,237)	\$0.65
Balance, September 30, 2008	4,564,748	\$0.44
Issued	3,767,246	\$0.45
Expired	(800,000)	\$0.40
Exercised	(180,507)	\$0.30
Balance, September 30, 2009	7,351,487	\$0.45

The following share purchase warrants are outstanding as at September 30, 2009:

Number of warrants	Exercise price	Expiry date
3,673,333	\$0.45	May 28, 2010
3,550,501	\$0.45	May 30, 2010
93,913 *	\$0.45	May 28, 2010
33,740 *	\$0.45	May 30, 2010
7,351,487	\$0.45	

* Finder's fee and agent's warrants

Each warrant entitles the holder to acquire one common share of the Company.

ENWAVE CORPORATION

Notes to Financial Statements

September 30, 2009 and 2008

(Expressed in Canadian dollars)

6. Share capital (cont'd.)

(d) Stock options

The Company's stock option plan (the "Plan") is available to eligible persons, whereby up to 6,788,010 common shares of the Company may be reserved for issuance pursuant to the exercise of the options. Options issued under the Plan, unless otherwise approved by the Board, generally vest as follows: one-third six months after the date of grant, one-third after 12 months after the date of grant, and one-third 18 months after the date of grant, except for options granted to individuals engaged in investor relations activities, which must vest over a 12-month period. The minimum exercise price of a stock option cannot be less than the applicable closing market price of the Company's shares on the date prior to the stock option grant. Options issued under the Plan have a maximum life of five years from the date of grant as long as the Company is listed on Tier two of the TSX Venture Exchange, and 10 years upon the Company being listed on Tier one.

During the year ended September 30, 2009, the Company approved for grant an aggregate of 1,225,000 incentive stock options to directors, officers, consultants and employees.

For the options that vested during the fiscal year, which includes the vesting of some options granted in prior years, an amount of \$371,606 of stock-based compensation was recorded with an offsetting credit to contributed surplus (Note 7).

During the year ended September 30, 2008, the Company granted an aggregate of 1,310,000 incentive stock options to directors, officers, employees and consultants. For the options vested during the year (including vesting of some options granted in prior years) an amount of \$752,456 of stock-based compensation expense was charged to operations and credited to contributed surplus (Note 7).

The following weighted average assumptions were used for the valuation of stock options:

	2009	2008
Risk-free interest rate	1.96%	3.14%
Expected life	5 years	5 years
Estimated volatility	90.80%	106.01%
Dividend rate	0.00%	0.00%

A summary of the changes in stock options is presented below:

	Amount	Weighted average exercise price
Outstanding, September 30, 2007	5,160,000	\$ 0.28
Granted	1,310,000	0.41
Exercised	(1,200,000)	0.12
Expired unexercised	(600,000)	0.30
Outstanding, September 30, 2008	4,670,000	0.35
Granted	1,225,000	0.32
Exercised	(153,333)	0.11
Expired unexercised	(306,667)	0.46
Outstanding at September 30, 2009	5,435,000	0.35
Exercisable at September 30, 2009	4,343,333	\$ 0.35

ENWAVE CORPORATION

Notes to Financial Statements

September 30, 2009 and 2008

(Expressed in Canadian dollars)

6. Share capital (cont'd.)

(d) Stock options (cont'd.)

The Company has the following stock options as at September 30, 2009:

Options outstanding	Options exercisable	Exercise price	Expiry date
150,000	150,000	0.17	December 19, 2009
150,000	150,000	0.24	April 18, 2010
150,000	150,000	0.15	February 2, 2011
50,000	50,000	0.28	September 19, 2011
200,000	200,000	0.30	October 17, 2011
1,850,000	1,850,000	0.33	February 9, 2012
400,000	400,000	0.48	March 19, 2012
100,000	100,000	0.50	June 14, 2012
50,000	50,000	0.50	July 10, 2012
10,000	10,000	0.44	September 24, 2012
50,000	33,333	0.485	November 26, 2012
50,000	50,000	0.45	December 18, 2012
800,000	533,333	0.40	December 31, 2012
200,000	200,000	0.38	June 2, 2013
800,000	266,667	0.30	December 31, 2013
10,000	-	0.25	December 31, 2013
265,000	-	0.35	June 2, 2014
150,000	150,000	0.55	June 2, 2014
5,435,000	4,343,333	\$ 0.35	

As at September 30, 2009, the weighted average remaining contractual life of the outstanding options was 2.88 years (2008 – 3.40 years).

Each stock option entitles the holder to acquire one share of the Company.

ENWAVE CORPORATION

Notes to Financial Statements

September 30, 2009 and 2008

(Expressed in Canadian dollars)

7. Contributed surplus

Changes in contributed surplus are as follows:

	Amount \$
Balance, September 30, 2007	865,105
On exercise of stock options	(29,665)
On vesting of stock options [Note 6(d)]	752,456
On issuance of share purchase warrants and agent's warrants [Note 6(c)]	285,273
Balance, September 30, 2008	1,873,169
On exercise of stock options	(11,083)
On exercise of share purchase warrants	(17,187)
On issuance of share purchase warrants [Note 6(c)]	255,079
On cost of issuance	(15,161)
On vesting of stock options [Note 6(d)]	371,606
Balance, September 30, 2009	2,456,423

8. Government assistance

On October 9, 2007, the Company was granted by the National Research Council of Canada (NRC) Industrial Research Assistance Program (IRAP) a non-repayable contribution of up to \$300,000. IRAP requires that the proceeds from the grant be applied towards research and development costs associated with *bioREV*[™] drying technology. Under the terms of the agreement, NRC-IRAP has agreed to reimburse the Company for 70% of salaries paid to Company employees involved in this technology up to a maximum of \$50,000 and 45% of external contractor fees up to a maximum of \$250,000. A total of \$102,720 was claimed by the Company during the fiscal year ended September 30, 2009 (2008: \$159,445), which was recorded as a reduction of related research and development expenses.

On August 9, 2009, the Company entered into a further agreement with NRC-IRAP whereby NRC-IRAP will fund the Company with up to \$175,000 in matching funds over two years to continue the development of the Company's *powderREV* bulk powder dehydration technology. No matching funds were received or recorded by the Company during the fiscal year ended September 30, 2009.

9. Commitments

(a) On June 26, 1996, the Company entered into a 20-year exclusive world-wide license agreement with the University of British Columbia (UBC) for a microwave food drying-based technology used to create dehydrated food products. The agreement was amended in January 1998 and in December 2006. In accordance with the amended license agreement, the Company must pay royalties of 0.5% on the sale of consumable products, 3% on hardware product sales, 3% on leasing revenues and 20% on sublicensing revenue, with a minimum annual royalty of \$5,000 per year. Royalties on sub-licensing and the sale of consumable products remain to be negotiated in good faith. During the year, the Company recorded an expense of \$13,100 (2008 - \$5,000) resulting from the royalties. As at September 30, 2009, of the total royalties, \$8,100 remained unpaid and was an accrual.

ENWAVE CORPORATION

Notes to Financial Statements

September 30, 2009 and 2008

(Expressed in Canadian dollars)

9. Commitments (cont'd.)

- (b) On April 30, 2004, the Company entered into a 20-year exclusive world-wide license agreement with UBC, commencing on May 1, 2004, for the process for production of Porous Solid Structures ("the Technology") and any and all related patents or patent applications related to any improvements, variations, updates, modifications and enhancements of the Technology. The Company paid an initial \$5,000 license fee. The Company will pay UBC royalties of 8% of gross revenues from all services performed utilizing the Technology, products manufactured using the Technology and from any commercial exploitation of the Technology. The Company will pay royalties of 3% of the gross revenue of hardware products incorporating the Technology, 10% of leasing revenue from leases of hardware products incorporating the Technology, and 20% of sublicensing revenue of the same. Royalties are to be paid quarterly. The Company will pay UBC an annual maintenance fee of \$2,000 commencing on January 1, 2006. All required minimum payments to September 30, 2009 have been made and \$16,667 (2008 - \$8,333) has been accrued as at September 30, 2009 for the sixth anniversary. There will be minimum royalty payments as per the following schedule:

1st, 2nd & 3rd anniversary:	\$nil
4th Anniversary:	\$10,000 (Paid)
5th Anniversary:	\$20,000 (Paid)
6th and successive anniversaries:	\$40,000

- (c) The Company has a lease in place to rent warehouse space for its equipment and development facilities.

Lease payments over the lease term, including all taxes, are as follows:

	\$
2010	13,453

- (d) The Company has a sublease agreement to rent laboratory space.

Lease payments over the lease term, including all taxes, are as follows:

	\$
2010	10,868

- (e) The Company entered into a Contribution Agreement with the NRC dated March 26, 1999. Under this agreement, effective January 1, 1999, the NRC will contribute a maximum of \$480,474 to the Company based on 33% of its qualifying expenditures. Commencing January 1, 2002 the contribution is repayable to NRC at the rate of 2.3% of revenues to a maximum of \$720,711. The Company is required to continue to make royalty payments until the earlier of the original contribution being fully repaid and January 1, 2012, after which time no further payments are required. During the fiscal year ended September 30, 2009, a total of \$11,786 (2008 - \$1,979) was paid or accrued to the NRC.

- (f) As part of a termination agreement dated June 30, 1998, and amended on September 5, 2006, the Company is committed to pay an amount equal to 2% of the cash flows, defined in the agreement as net profit adjusted by deducting long-term receivables, capitalised patent costs and adding back amortization charges, in each fiscal year subsequent to the year the Company first achieves \$500,000 of cash flows, until such time as \$150,000 has been paid.

ENWAVE CORPORATION

Notes to Financial Statements

September 30, 2009 and 2008

(Expressed in Canadian dollars)

9. Commitments (cont'd.)

(g) On July 10, 2007, the Company entered into a Collaboration Agreement (the "Agreement") with Aridis Pharmaceuticals LLC (Aridis) of San Jose, California, whereby Aridis will test the Company's *bioREV*TM equipment for the dehydration of certain vaccine and antibody formulations. As part of the Agreement, the Company will contribute US \$300,000 to the project as follows:

- i. US \$2,500 to defray personnel travelling costs incurred for the project,
- ii. US \$297,500 to be provided to Aridis to help defray its research costs related to the Agreement, this amount to be paid in six quarterly instalments of US \$50,000 over the 18-month project schedule.

As at September 30, 2009, the Company has fully completed its commitment to Aridis.

(h) On May 22, 2008, the Company entered into an Investor Relations agreement with AXINO AG ("AXINO"), of Stuttgart, Germany, to develop the Company's European presence. The term of the agreement is six months. The Company will pay a monthly fee of €2,500, and will refund AXINO for certain expenses. All fees and expenses pursuant to this agreement as at September 30, 2009 have been paid.

(i) The Company entered into an agreement for the rental of office space for its administrative staff. The rental began on November 1, 2008 for a term of two years. During the first year, the Company will pay a monthly fee of \$1,000, which will increase by an amount of the greater of 4% or the consumer price index for the second year.

(j) On August 1, 2009, the Company entered into a lease agreement for a new workshop facility. Lease payments over the lease term, including all taxes except GST, are as follows:

	\$
2010	44,550
2011	52,150
2012	38,250

In addition, the Company will pay additional rent to cover its share of operating costs.

(k) In May 2009, the Company entered into a Sponsoring agreement with BankM, a shareholder communications and investment banking firm in Germany, whereby the Company will pay an amount of €24,000 per year payable quarterly in advance for the respective three months. The agreement is automatically renewable for an indefinite time unless terminated by either party, on a semi-yearly basis with a six week notice. All fees and expenses pursuant to this agreement as at September 30, 2009 have been paid.

ENWAVE CORPORATION

Notes to Financial Statements

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(Expressed in Canadian dollars)

10. Related party transactions and amounts due to related parties

Related party transactions not elsewhere disclosed in the financial statements are as follows:

	2009	2008
	\$	\$
Office administration paid to a company controlled by a director	63,578	59,725
Management fees paid to a Co-CEO	120,739	88,615
Management fees paid to an officer	52,109	48,078
Directors fees paid to a director	2,000	2,000
Office rent paid to a company controlled by a director	954	10,032
Commissions on sales paid to a director	25,155	2,650
Patents and royalties paid to UBC	68,034	26,790
Research and development expenses paid to UBC	1,920	5,000
Payment to UBC for modification of equipment	-	1,980
Sublease of premises from a company related to UBC	41,400	41,400

During the year ended September 30, 2009, the Company performed some repair and maintenance work for UBC on a piece of equipment. Fees of \$21,889 were charged to UBC and these fees were paid as at September 30, 2009.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties, unless otherwise noted.

As at September 30, 2009, the following amounts were due to related parties:

	2009	2008
	\$	\$
Amounts due to officers or companies controlled by an officer of the Company for consulting, administrative or management services, or refundable expenses	20,163	13,665
Amounts due to UBC or organizations related to UBC	29,354	8,333
	49,517	21,998

All amounts above are non-interest bearing.

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Notes to Financial Statements

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(Expressed in Canadian dollars)

11. Income taxes

The income tax effects of temporary differences that give rise to significant components of future income tax assets and liabilities are as follows:

	2009	2008
	\$	\$
Future income tax assets:		
Losses available for future periods	1,108,000	789,000
Equipment	98,000	92,000
Scientific research and experimental development	209,000	218,000
Other	91,000	68,000
	1,506,000	1,167,000
Valuation allowance for future tax assets	(1,506,000)	(1,167,000)
	-	-

The recovery of income taxes shown in the statements of operations, comprehensive loss, and deficit differ from the amounts obtained by applying statutory rates to the loss before provision for income taxes due to the following:

	2009	2008
	\$	\$
Income tax rate reconciliation:		
Net loss before taxes	1,973,000	2,052,000
Combined federal and provincial income tax rate	30.25%	31.63%
Expected income tax recovery	(597,000)	(649,000)
Permanent differences	113,000	239,000
Effect of income tax rate changes	126,000	210,000
Expiry of losses	53,000	190,000
Other	(34,000)	(4,000)
Change in valuation allowance	339,000	14,000
	-	-

As at September 30, 2009, the Company has non-capital losses of approximately \$4,431,000 (2008 - \$3,036,000) available for Canadian income tax purposes to offset against future income. The non-capital losses expire as follows:

	\$
2014	82,000
2015	190,000
2026	337,000
2027	922,000
2028	1,293,000
2029	1,607,000
	4,431,000

Future income tax benefits which may arise as a result of these losses have not been recognized in the financial statements due to the uncertainty over their realization, as future income tax benefits are only recognized to the extent that they are considered more likely than not to be realized.

ENWAVE CORPORATION

Notes to Financial Statements

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(Expressed in Canadian dollars)

12. Capital management

The Company considers its share capital and contributed surplus, as capital, which at September 30, 2009 totalled \$13,799,906 (2008: \$11,238,624).

The Company's objective when managing capital is to ensure sufficient resources are available to meet day-to-day operating requirements; to allow the Company to enhance and develop existing technology so that it can be sold to customers and to have the financial ability to expand the size of its operations.

The Company's Officers take full responsibility for managing the Company's capital and do so through quarterly meetings and regular review of financial information. The Company's Board of Directors is responsible for overseeing this process.

Methods used by the Company to manage its capital include the issuance of new share capital and warrants which has historically been done through private placements.

The Company is not subject to any externally imposed capital requirements.

13. Financial instruments

The Company is exposed to a number of risks related to collection of receivables, settlement of liabilities and management of cash and cash equivalents.

Credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents, restricted cash, and receivables. The Company aims to protect its cash and cash equivalents from undue risk by holding them with various high credit quality financial institutions located in Canada. The Company's cash and cash equivalents consist primarily of deposit investments with commercial banks in Canada.

The Company assesses the risk of default associated with a particular company. In addition, on an ongoing basis, management monitors the level of receivables attributable to each customer and the length of time taken for amounts to be settled and where necessary, takes appropriate action to follow up on those balances considered overdue.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective to managing liquidity risk is to ensure that it has sufficient liquidity available to meet its liabilities when due.

The Company uses cash and cash equivalents to settle its financial obligations as they fall due. The ability to do this relies on the Company collecting its receivables in a timely manner and by maintaining sufficient cash on hand.

At September 30, 2009, the Company's accounts payable and accrued liabilities were \$177,707 (2008 - \$236,370) and due to related parties was \$49,517 (2008 - \$21,998), all of which fall due for payment within twelve months of the balance sheet date.

The Company manages liquidity risk through ongoing review of receivables balances and the following up of amounts past due and the management of its cash and cash equivalents and their allocation between cash on hand and short-term deposit. Additional information regarding liquidity risk is disclosed in note 1.

ENWAVE CORPORATION

Notes to Financial Statements

September 30, 2009 and 2008

(Expressed in Canadian dollars)

13. Financial instruments (cont'd.)

Market risk

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

Interest rate risk

The only financial instruments that expose the Company to interest rate risk are its cash and cash equivalents. The Company's objectives of managing its cash and cash equivalents are to ensure sufficient funds are maintained on hand at all times to meet day-to-day requirements and to place any amounts which are considered in excess of day-to-day requirements on short-term deposit with the Company's banks so that they earn interest. When placing amounts of cash and cash equivalents on short-term deposit, the Company only uses high quality commercial banks and ensures that access to the amounts placed can be obtained on short-notice.

Currency risk

As at September 30, 2009, all of the Company's cash and cash equivalents and restricted cash were held in Canadian dollars, the Company's functional currency. While the majority of the Company's operations are in Canada, there is a commitment denominated in US Dollars (Note 9(g)) and compensation payment denominated in Euros (Note 9(h)), therefore, there is a foreign exchange risk associated with these balances.

Sensitivity analysis

The Company has completed a sensitivity analysis to estimate the impact on loss and comprehensive loss for the year ended September 30, 2009 with a change in interest rates and foreign currency rates. The impact on loss and comprehensive loss based on a 1.5% increase/decrease in interest rates and a 10% increase/decrease in US\$ and Euros is not significant.

14. Subsequent events

- (a) Subsequent to September 30, 2009, the Company granted an aggregate of 200,000 stock options to an investor relations consultant. Each option entitles its holder to purchase one common share at a price of \$0.50 per share for a period of five years.
- (b) Subsequent to September 30, 2009, the Natural Sciences and Engineering Research Council ("NSERC") awarded Dr. Tim Durance, the Company's Chairman & Co-CEO, \$190,000 payable over five years to continue his work at the UBC on Radiant Energy Vacuum technology for drying and stabilizing vaccines, probiotic bacteria, and natural antimicrobial agents.

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