ENWAVE CORPORATION

First Quarter 2019

Management Discussion and Analysis

Three months ended December 31, 2018

(expressed in thousands of Canadian dollars)

Dated February 27, 2019

ENWAVE CORPORATION
("EnWave" or "the Company")

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2018

Date of this report: February 27, 2019

This Management's Discussion and Analysis ("MD&A") provides a review of EnWave Corporation's ("EnWave", "the Company", "we", "us" or "our") financial performance, on a consolidated basis, for the three months ended December 31, 2018 relative to the three months ended December 31, 2017, and the financial position of the Company at December 31, 2018 relative to September 30, 2018. It should be read in conjunction with EnWave's annual audited consolidated financial statements and accompanying notes for the three months ended December 31, 2018 and 2017, as well as the 2018 annual MD&A and the 2018 annual audited consolidated financial statements and accompanying notes, and 2018 Annual Information Form ("AIF") (available at www.enwave.net or on www.sedar.com). The financial information contained in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

All financial references are in thousands of Canadian dollars unless otherwise noted.

Management's Responsibility for Financial Information

The Company's management is responsible for presentation and preparation of the condensed consolidated interim financial statements and the MD&A. The condensed consolidated interim financial statements have been prepared in accordance with IFRS.

The MD&A has been prepared in accordance with the requirements of securities regulators, including National Instrument 51-102 of the Canadian Securities Administrators.

The condensed consolidated interim financial statements and information in the MD&A necessarily include amounts based on informed judgments and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. In addition, in preparing the financial information we must interpret the requirements described above, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from the present judgements and estimates.

EnWave Corporation

EnWave Corporation is a Vancouver-based applied technology company that licenses, builds and installs commercial-scale dehydration platforms for applications in the food, legal cannabis, pharmaceutical and industrial sectors to manufacturing companies. EnWave has entered into royalty-bearing commercial license agreements ("CLAs") with twenty-five major food, cannabis, and pharmaceutical companies.

EnWave's proprietary Radiant Energy Vacuum ("REV™") dehydration platforms apply microwave energy under vacuum to offer flexible, efficient, low temperature processing suitable for food products, cannabis and biomaterials. The Company currently has three commercial scale technologies, *nutra*REV®, *powder*REV® and *quanta*REV® and one technology in the pilot-scale stage, *freeze*REV®.

EnWave's mission is to establish its REV™ technology as a new global dehydration standard. The Company is developing markets for its REV™ technology by selectively collaborating with strategic partners focused on reducing processing costs, increasing throughputs, and/or creating new or improved product opportunities. Management believes that REV™ technology has the ability to produce better quality products in certain applications than air drying, spray drying or freeze drying. It is also typically faster and more economical than freeze-drying.

The Company strives to grow revenues by securing multiple royalty streams through the licensing of its technology for specific market applications with a variety of royalty partners. Each commercial license agreement defines the royalty terms based on a percentage of sales generated or units produced by the royalty partner from the use of the REV™ technology. These agreements will also restrict the partner's use of the technology to specific applications and processing to a limited geographical area. The Company also seeks to generate profits from the sale of its REV™ machines. The Company's strategy with respect to existing royalty partners is to work closely with them to develop and commercialize products using REV™ technology and build future royalty streams by building production capacity.

EnWave's dehydration technology has proven commercial applications in multiple market verticals, including fruits and vegetables, cheese products, yogurt products, meat products, nutraceuticals, pharmaceuticals and cannabis products. We are actively engaged in multiple research and development ("R&D") programs to expand this commercial product portfolio and to expand the use of REV™ into additional market verticals.

NutraDried Food Company

The Company's wholly owned subsidiary, NutraDried Food Company, LLC ("NutraDried"), is a limited liability corporation registered in Washington, USA. NutraDried manufactures and sells Moon Cheese®, an all-natural dried cheese snack produced using two continuous 100kW nutraREV® machines. NutraDried produces Moon Cheese® in cheddar, gouda, mozzarella, sriracha and pepper jack flavours at its manufacturing facility located in Ferndale, Washington, USA. Moon Cheese® is sold in over 25,000 retail locations across Canada and the United States. Notable retail points of distribution include Starbucks, Publix, Target, Rite Aid, CVS, Safeway, Loblaws, Whole Foods, Save-On-Foods, and most recently, Costco.

NutraDried has demonstrated the ability for REV™ technology to operate in a large-scale commercial operation. This operation has served the Company as a showcase of the capability of large-scale commercial REV™ machinery to current and potential royalty partners. Furthermore, NutraDried's business success has established a precedent for analysis by dairy companies considering the commercialization of REV™ technology into their operations. The Company's strategy is to grow the NutraDried business through additional customer acquisitions, introducing new innovative product extensions, and by increasing production capacity when necessary, and to continue to demonstrate the commerciality of REV™ to potential royalty partners to advance the adoption of REV™ in the global dehydration industry.

NutraDried holds a commercial license for REV™ technology and pays a quarterly royalty to EnWave Canada based on sales. The royalty payment from NutraDried, a subsidiary of EnWave Canada, is eliminated from revenue in the consolidated financial statements of the Company. The quarterly royalty payments from NutraDried to EnWave were as follows:

($ '000s)	*Mar 31, 2017*	*Jun 30, 2017*	*Sep 30, 2017*	*Dec 31, 2017*	*Mar 31, 2018*	*Jun 30, 2018*	*Sep 30, 2018*	*Dec 31, 2018*
NutraDried Royalty(1)	60	91	100	118	122	254	327	357

(1) The royalty payment to EnWave Canada is an intercompany transaction that is eliminated upon consolidation from revenue as reported in the Company's consolidated financial statements, and is a non-IFRS financial measure. Please refer to the disclosures under the heading *Non-IFRS Financial Measures*.

Recent Developments

Management and Board of Directors

On October 12, 2018, Dr. Gary Sandberg resigned from the Board of Directors and from his position as Senior Vice President, Technical Services.

On February 27, 2019, Mr. Stephen Sanford was appointed to the Board of Directors. Mr. Sanford is a seasoned legal executive with over 30 years of experience as an executive with Fluor Corporation, a Fortune 500 construction and engineering company. Mr. Sanford brings significant multi-jurisdictional legal experience and oversight to EnWave's Board of Directors.

Overall Performance

In the first quarter of 2019, the Company had consolidated revenues of $7,806, compared to $4,519 in the same period in fiscal 2018, an increase of 73% or $3,287. The Company had a consolidated net loss of $15 in the first quarter of fiscal 2019, compared to $397 for fiscal 2018, a decrease of $382. During the first quarter of 2019, the Company continued to build momentum with sales of Moon Cheese® driving growth in revenues and operating cash flows. The Company reported Adjusted EBITDA of $1,163 for the first quarter of 2019 compared to $315 for the first quarter of 2018, an increase of $848.

EnWave Canada had reported revenues of $1,478 for the three months ended December 31, 2018 compared to $2,121 for the three months ended December 31, 2017, a decrease of $643. EnWave Canada reported a segment loss of $1,161 for the three months ended December 31, 2018 compared to $398 for the three months ended December 31, 2017, an increase of $763. The decrease in revenues and increase in net loss of EnWave Canada was primarily due to the volume of open of machine sales contracts during the period.

NutraDried reported revenues of $6,328 for the three months ended December 31, 2018, compared to $2,398 for the three months ended December 31, 2017, an increase of $3,930 or 164%. NutraDried reported segment income of $1,146 for the three months ended December 31, 2018, compared to $68 for the three months ended December 31, 2017, an increase of $1,078. The increase in revenues and profitability was due to NutraDried securing additional product rotations with Costco in the U.S, increased sales to Whole Foods and Publix, along with several other new points of distribution.

The overall financial performance of the Company improved in the first quarter of 2019, largely driven by growth in the NutraDried business. EnWave Canada had two large-scale REV™ equipment purchase contracts open which revenue has yet to be recorded, and revenue will be recorded subsequent as progress is made on the fabrication of these machines.

Commercial Licensing and Partnership Development

Sub-License Agreement with The Green Organic Dutchman

On January 3, 2019, EnWave and Tilray, Inc. (“Tilray”) signed a royalty-bearing commercial sublicense with The Green Organic Dutchman Holdings Ltd. (“TGOD”), a major Canadian producer of medical and adult-use cannabis, and a global leader in cultivating premium, certified organic cannabis. The Agreement grants TGOD the right to use the Company’s proprietary REV™ technology to dry organic cannabis in Canada. The Company received a purchase order from TGOD for a large-scale 60kW commercial REV™ machine to initiate commercial production in Canada.

Equipment Purchase Agreement with Milne Fruit Products

On December 18, 2018 EnWave signed an Equipment Purchase Agreement with Milne Microdried Inc. (“Milne”) to provide Milne with its third 120kW REV™ machine for the production of an extensive portfolio of dried vegetable and fruit applications. The purchase also extends Milne’s exclusive right to produce REV™-dried strawberries and blueberries in the U.S. Installation of the third 120kW line is planned towards the end of calendar year 2019, and will significantly increase Milne’s processing capacity for royalty-bearing REV™ products.

License Agreement with Friesland Campina

On January 21, 2019, EnWave signed a royalty-bearing commercial license agreement with Royal FrieslandCampina N.V. (“Friesland Campina”), a major European dairy company. Friesland Campina will launch REV™ products in the European marketplace and purchased a 10kW REV™ machine to initiate commercial production in the Netherlands. Friesland Campina’s “Milkubator” innovation program aims to develop new products that fit the evolving consumer needs and taste preferences using EnWave’s REV™ food dehydration technology for its innovation roadmap.

Purchase Agreement with Bare Snacks

On October 4, 2018 Bare Snacks purchased a third, small-scale 10kW REV™ machine to increase processing capacity in order to fill the increasing market demand for its REV™-dried snack products. The third equipment purchase by Bare Snacks confirms the growing commercial acceptance of EnWave’s REV™ technology in the rapidly-growing “better for you” snacking vertical of the consumer-packaged goods sector. Bare Snacks is a wholly-owned subsidiary of PepsiCo, Inc and distributes premium fruit snacks throughout the U.S. under its Bare® brand of products.

License Agreement Extension with Bonduelle Group

On February 12, 2019, Bonduelle Group (“Bonduelle”) launched its InFlavor® dehydrofrozen vegetable product line to its food service customers and confirmed plans to launch its retail product in late 2019. Bonduelle’s InFlavor® makes use of EnWave’s REV™ technology to provide a premium frozen vegetable offering to consumers.

In exchange for exclusive North American rights to use EnWave’s technology to produce dehydrofrozen vegetables, Bonduelle must purchase a 400kW REV™ machine before September 30, 2019. As consideration for the extension, Bonduelle agreed to pay a milestone payment to EnWave and agreed to buy-out the operating lease on the 120kW *quanta*REV® machine currently operating at Bonduelle’s plant in Sainte-Martine, Quebec.

Sub-License Agreement with Your Wasabi Farms

On January 30, 2019, EnWave and Tilray signed a royalty-bearing commercial sublicense with Your Wasabi Farms Ltd. (“YWF”), a pre-existing royalty partner of EnWave. The Agreement grants YWF the right to use the Company’s REV™ technology to dry cannabis plant material, enabling YWF to dry industrial hemp in Canada. The agreement extends YWF’s right to use its REV™ machinery to dry industrial hemp, and marks EnWave's second sub-license agreement for the commercial use of its REV™ technology within this rapidly growing global market.

Cancellation of Agropur Dairy Co-operative's Commercial License Agreement

In the spring of 2018, Agropur Dairy Co-operative ("Agropur") completed a limited initial marketing launch of its iögo Protein Crunch snack products in Quebec and Alberta. The trial retail launch was intended to prove the consumer acceptance and demand for Agropur's crunchy yogurt snack products. Agropur was required to purchase large-scale REV™ machinery prior to a predetermined deadline in order to extend its commercial license agreement with the Company. Although the trial launch rendered positive results, Agropur did not proceed with the scale-up to large REV™ equipment. Agropur and EnWave mutually agreed to cancel the existing commercial license agreement.

Royalty Partner Pipeline

Technology Evaluation License Option Agreements ("TELOAs")

EnWave has numerous prospective royalty partners evaluating the REV™ technology under TELOAs. The strategy under these arrangements is to co-develop product applications using the technology for specific partner opportunities and to ultimately convert them into commercial licenses. EnWave earns revenue under TELOAs from short-term REV™ machine rentals as well as fees for access to EnWave's R&D facilities and product development expertise. EnWave's food scientists and engineers work with the prospective license company during the TELOA phase of the sales cycle to formulate and optimize innovative products using REV™, and develop a path towards commercialization.

EnWave's current sales pipeline comprises multiple companies that have entered into TELOAs as well as many earlier-stage prospects that are in active discussions about using REV™ under mutual non-disclosure agreements. Not every prospective licensee enters into a TELOA; there have been cases where a prospective licensee has bypassed the TELOA phase and entered directly into a commercial license agreement and purchased REV™ machinery. This is often the case when the product application has been previously proven in another geography, or when the value proposition and commercial business cases are compelling enough for the prospect to enter directly into commercial production.

As of the date of this report, EnWave has 10 active TELOAs with prospective licensees evaluating the use of REV™ for applications in the dairy, fruit products, vegetable products, meat products, and cannabis verticals. Several of the active agreements are with major international processing companies.

U.S. Army Field Ration Development Project

On July 30, 2018, the United States Army Natick Soldier Research, Development and Engineering Center ("NSRDEC") purchased a 10kW REV™ machine for research and development purposes. EnWave and the NSRDEC are conducting a collaborative R&D project for the development of nutrient-rich field rations for soldiers. The U.S. Army purchased the 10kW REV™ machine to facilitate an accelerated path to improved close combat assault ration deployment. The Company's strategy under this agreement is to work closely with the U.S. Army's suppliers to facilitate the development and supply of innovative new products to the U.S. Army.

Cornell University Research & Development License

On November 7, 2018, the Company signed a Research and Development License Agreement with the College of Agriculture and Life Sciences at Cornell University ("Cornell"). Cornell also purchased a 10kW REV™" dehydration machine to be used at its New York Center of Excellence in Food and Agriculture. Cornell will use the REV™ machinery for research and development purposes to propagate the REV™ technology with key stakeholders in the food manufacturing industry throughout New York State and beyond to help develop innovative, premium food applications. The Center for

Excellence will effectively serve as a proving ground for prospective future royalty partners of the Company to evaluate the merits of REV™ technology.

Pharmaceutical Industry Developments

EnWave has the completed fabrication and installation of the first scaled-up Good Manufacturing Practices ("GMP") freezeREV® for Merck Sharp & Dohme Corp. ("Merck") as a part of a multi-year project to develop EnWave's REVTM dehydration technology for the pharmaceutical industry. The first scaled-up machine was designed to provide Merck with the ability to continuously dehydrate liquid vaccination in vials, and has the potential to displace the need for lyophilisation.

The GMP *freeze*REV® machine passed factory acceptance testing at EnWave's facility in late 2018, and recently passed site acceptance testing at Merck's facility. The GMP *freeze*REV® machine is now installed and Merck plans to use the *freeze*REV® machine to pursue GMP certification for new products; if successful Merck will potentially pursue clinical trials using the EnWave technology.

NutraDried Food Company

Sales and distribution of Moon Cheese® throughout Canada and the U.S. continued to build momentum during the first quarter of 2019. At the end of fiscal year 2018, NutraDried commissioned its second large-scale 100kW REV™ machine and doubled its production capacity so satisfy increasing demand for its products.

NutraDried began selling its Moon Cheese® product in a 10oz Club Pack format to Costco in the first quarter of 2018 and continues to do so as a product rotation in several of Costco's divisions. During the three months ended December 31, 2018, NutraDried continued to distribute product into several Costco divisions. The distribution in Costco is not permanent, and Moon Cheese® is not yet an everyday item at Costco. The Company will attempt to secure additional Costco distribution as part of its overall channel strategy.

NutraDried also began national distribution into Whole Foods and Publix, two major American supermarkets. NutraDried's strategy is to continue to grow its core distribution in the U.S. mainstream retail grocery channel by securing national retail accounts.

U.S. Cannabis Market

Cannabis in the U.S. is a Schedule 1 drug under the Controlled Substances Act and is federally illegal under U.S. federal laws. The regulatory environment in the U.S. remains complex, with many states legalizing the cultivation and distribution of recreational cannabis, but it remains federally illegal. EnWave does not have any business activities related to cannabis in the U.S., including CLAs and/or TELOAs, and will not pursue business development in U.S. market for cannabis until the regulatory environment becomes more favorable.

In December 2018, the U.S. government signed into law the 2018 Farm Bill, which included the Hemp Farming Act, a bill that removed hemp from the federal list of controlled substances and legalized industrial hemp production. Hemp is distinct from cannabis in that it has a miniscule concentration of tetrahydrocannabinol (THC), and thus no narcotic capability. Hemp contains cannabidiol (CBD), a substance often produced from cannabis that is thought to have certain medicinal benefits. The hemp plant is estimated to be used in more than 25,000 products spanning agriculture, textiles, recycling, automotive, furniture, food, nutrition, beverages, paper, construction materials, and personal care. EnWave is currently evaluating commercial opportunities in the U.S. for legalized hemp production with its rapid dehydration technology.

Summarized Quarterly Results

EnWave's revenues, direct costs and net loss fluctuate based on the timing of machine orders from companies in our sales pipeline as well as change to points of distribution for Moon Cheese®. Management works closely with each company evaluating REV™ technology under TELOAs and research and development projects, but is not able to accurately predict the timing and frequency of machine orders. The revenue in any given period will vary depending on the number of machine orders received and CLAs signed, and this causes variability in our quarterly financial performance. The variability in timing of machine orders affects our quarterly revenues and operating results. Additionally, the Company generates royalty revenues each quarter from the installed REV™ equipment base with its royalty partners, but does not have the ability to direct or control the commercial launch and royalty growth of each partner's product offering, resulting in fluctuations in the royalties earned by the Company each quarter. When new points of retail distribution are added and/or lost for Moon Cheese® we will experience variability in timing of revenues and expenses.

The following is a selected summary of quarterly results for the eight most recently completed quarters to December 31, 2018 reported in Canadian dollars, the Company's presentation currency:

	2017			**2018**				**2019**
($ '000s)	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*
Revenues	4,183	4,674	3,630	4,519	4,172	6,779	7,355	7,806
Direct costs	(3,155)	(3,052)	(2,764)	(3,093)	(2,877)	(3,848)	(4,097)	(4,769)
Gross profit	1,028	1,622	866	1,426	1,295	2,931	3,258	3,037
Expenses	(1,807)	(2,151)	(1,926)	(1,823)	(1,814)	(3,035)	(2,645)	(2,736)
Income tax expense	-	-	-	-	-	-	(538)	(316)
Net (loss) income after income tax	(779)	(529)	(1,060)	(397)	(519)	(104)	75	(15)
Adjusted EBITDA[1]	66	330	(278)	315	4	1,313	1,300	1,163
Loss per share – Basic and diluted	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	0.00	(0.00)
Total assets	14,430	13,863	13,344	21,926	20,108	20,958	22,162	23,781
Total liabilities	3,204	2,896	3,312	2,955	3,692	4,190	5,240	5,348
Minority interest	1,567	1,638	1,763	1,990	-	-	-	-

[1] Adjusted EBITDA is a non-IFRS Financial Measure. Please see the *"Non-IFRS Financial Measures"* section for more information.

Revenues for Q1 2019 were relatively consistent with a slight increase from the last two quarters in 2018 which remains due to a stable increase in NutraDried revenues. Revenues for Q3 and Q4 2018 increased due to further sales and distribution of Moon Cheese® by NutraDried. The sustained direct costs and gross profit for Q4 2018 and Q1 2019 continue to be the result of NutraDried sales, and this also resulted in increased profitability for the same periods.

Expenses for the Q1 2019 remained relatively consistent with Q3 and Q4 2018. The increase in expenses in Q3 2018 were due to an impairment of the Due from Customers on Contracts balance related to the termination of the Sutro Biopharma equipment purchase contract. Additionally, in the last two quarters of 2018 there was an increase to our sales and marketing expenses due to NutraDried's selling activities with an increase in marketing, promotion, commissions and trade spending. These costs fluctuate in correlation with revenues generated from the sale of products.

Selected Financial Information

The following table sets out selected consolidated financial information for the periods indicated, and has been derived from EnWave's condensed consolidated interim financial statements and accompanying notes for the periods ended December 31, 2018 and 2017, and should be read in conjunction with those financial statements.

($ '000s)	Three months ended December 31,		
	2018	2017	Change %
Revenues	**7,806**	4,519	73%
Direct costs	**4,769**	3,093	54%
Gross margin	**3,037**	1,426	113%
Operating Expenses			
General and administration	**998**	593	68%
Sales and marketing	**976**	590	65%
Research and development	**341**	272	25%
	2,315	1,455	59%
Net loss for the period after taxes	**(15)**	(397)	(96%)
Loss per share – basic and diluted	**(0.00)**	(0.01)	

Discussion of Operations

Revenue

Revenue is earned from two business segments: EnWave Canada and NutraDried. EnWave Canada generates revenue from the sale of REV™ machinery to royalty partners, rental revenue from short-term rentals of REV™ machinery to prospective royalty partners, and royalties earned from commercial license agreements. NutraDried generates revenue from the sale of Moon Cheese® into retail and wholesale distribution channels.

	Three months ended December 31,	
($ '000s)	**2018**	**2017**
Revenue	7,806	4,519

Revenue for the three months ended December 31, 2018 was $7,806, compared to $4,519 for the three months ended December 31, 2017, an increase of $3,287. The increase in revenues for the three months ended December 31, 2018 was driven primarily by an increase in product sales by NutraDried of $3,930, an increase in royalty revenue of $48 and a decrease in equipment sales of $595. EnWave Canada had revenue of $1,478 for the three months ended December 31, 2018 compared to $2,121 for the three months ended December 31, 2017, a decrease of $643. EnWave's revenue decreased compared to 2017 due to a lower number of commercial equipment purchase contracts.

Quarterly Revenue	**2017**			**2018**				**2019**
($ '000s)	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*
EnWave Canada	2,841	2,786	1,626	2,121	1,768	1,610	823	1,478
NutraDried	1,342	1,888	2,004	2,398	2,404	5,169	6,532	6,328
Total	4,183	4,674	3,630	4,519	4,172	6,779	7,355	7,806

Revenues from NutraDried were $6,328 for the three months ended December 31, 2018 compared to $2,398 for the three months ended December 31, 2017, an increase of $3,930. Revenues in 2018 increased due to sales of Moon Cheese® to Costco in the U.S., as well as the addition of other new points of retail distribution. Both Whole Foods and Publix are now selling our Moon Cheese® nationally.

There is customer concentration risk through two significant customers, Costco and Starbucks. In Q1 2019 revenues from Costco and Starbucks represented 61% and 9% of NutraDried's revenues, respectively.

We continue to pursue revenue growth in EnWave Canada through commercial machine sales and installations by signing additional royalty-bearing licenses that are accompanied by machine purchase orders. Revenue for EnWave Canada is contract-based and is not considered seasonal, however, fluctuations in revenue will occur based on the magnitude and volume of commercial equipment sales contracts open during a given period.

EnWave Canada earned royalties of $251 during the three months ended December 31, 2018 compared to $203 for the three months ended December 31, 2017 an increase of $48. Royalties are payable to EnWave as a percentage of the value of products sold or based on the number of units produced by our royalty partners. We expect our royalties to grow as we sign new license agreements and supply additional REV™ machine dehydration capacity to our royalty partners.

The classification of certain discounts and promotional costs under IFRS 15, R*evenue from Contracts with Customers,* impacted the Company's revenues and sales and marketing expenses for the three months ended December 31, 2018. Refer to the section *New Accounting Policies Adopted during the Period*.

Direct costs

Direct costs comprise the cost of materials, components, manufacturing labour, overhead costs, depreciation of manufacturing plant and equipment, warranty costs and product transportation costs. Direct costs comprise all direct costs related to the revenue generating operations of the Company.

	Three months ended December 31,	
($ '000s)	**2018**	**2017**
Direct costs	4,769	3,093
% of revenue	61%	68%

Direct costs for the three months ended December 31, 2018 increased by $1,676, or 54% compared to the three months ended December 31, 2017. Direct costs for EnWave Canada are driven by commercial machine selling and construction activity. As a percentage of revenue, direct costs for the three months ended December 31, 2018 decreased by 7% compared to the three months ended December 31, 2017.

During the three months ended December 31, 2018, EnWave Canada yielded a ratio of direct costs to revenue of 89%, compared to 74% during the three months ended December 31, 2017. The decrease in gross margin is due to lower machine construction activity in 2018 while maintaining a consistent fixed overhead base. We expect our margins will improve as the portfolio of high-margin royalty revenues grows through the installation of additional machinery and commercial success of EnWave's royalty partners.

The ratio of direct costs to revenue was 55% for NutraDried for the three months ended December 31, 2018, compared to 63% in the three months ended December 31, 2017. The ratio of direct costs to revenue improved due to increased production volumes creating higher economies of scale. The unit cost of Moon Cheese® production decreased over the period due to improved scale. Direct costs of NutraDried are highly dependent on the commodity pricing of raw cheese as the primary raw material used in production. Cheese prices remained relatively stable and we monitor the impact of commodity price fluctuations.

General and administration

General and administration ("G&A") expenses consist of wages, administration, accounting and audit fees, legal fees, investor relations, depreciation, office rent, insurance, and other corporate expenses.

	Three months ended December 31,	
($ '000s)	**2018**	**2017**
General and administration	998	593
% of revenue	13%	13%

G&A expenses for the three months ended December 31, 2018 were $998 compared to $593 for the three months ended December 31, 2017, an increase of $405. The increase in G&A expenses for the year is due to the hiring of a full-time CEO for NutraDried and related salary costs, a search firm being retained for the recruitment of additional engineering and business development personnel, general salary increases and bonus payments. As a percentage of revenue, G&A expenses was the same for the three months ended December 31, 2018 compared to the three months ended December 31, 2017.

Sales and marketing

Sales and marketing ("S&M") expenses includes salaries and wages, travel expenses, consulting fees, advertising expenses, marketing fees, sales commissions and office expenses related to selling activities.

	Three months ended December 31,	
($ '000s)	**2018**	**2017**
Sales and marketing	976	590
% of revenue	13%	14%

S&M expenses for the three months ended December 31, 2018 were $976 compared to $590 for the three months ended December 31, 2017, an increase of $386.

The increase in S&M expenses for the three months ended December 31, 2018 is primarily due to NutraDried with increased spending on with marketing agencies on branding and promotional activities. S&M expenses for NutraDried were $673 for the three months ended December 31, 2018 compared to $340 for the three months ended December 31, 2017, an increase of $333.

S&M expenses also increased due to EnWave Canada investing in additional personnel and marketing resources to drive market penetration and revenue growth. S&M expenses for EnWave Canada were $303 for the three months ended December 31, 2018 compared to $250 for the three months ended December 31, 2017, an increase of $53.

The adoption of IFRS 15 impacted the classification of certain promotional expenses and discounts that were previously recorded as S&M expenses, but are recorded as a reduction to revenues under IFRS 15 in fiscal year 2019. The amount of these expenses for the three months ended December 31, 2018 was $765. Refer to the section *New Accounting Policies Adopted during the Period*.

Research and development

Research and development ("R&D") expenses include the salaries of engineers, technicians, scientists and management related to research and development activities, patent filing and maintenance costs, costs associated with the Company's laboratory and pilot plant facility, including insurance, office expenses at the plant, and R&D staff travel expenses. R&D expenses also includes depreciation expense for R&D equipment. R&D expenses are primarily attributable to EnWave Canada as NutraDried does not have significant R&D activity.

($ '000s)	Three months ended December 31, 2018	2017
Research and development	341	272
% of revenue	4%	6%

R&D expenses for the three months ended December 31, 2018 were $341 compared to $272 for the three months ended December 31, 2017, an increase of $69. The increases are attributable to patent filing and patent maintenance activities to secure our intellectual property.

Amortization of intangible assets

Amortization of intangible assets for the three months ended December 31, 2018 was $137 compared to $139 for the three months ended December 31, 2017. The amortization expense has remained consistent with the slight decrease due to certain intangible assets becoming fully amortized during the prior year.

($ '000s)	Three months ended December 31, 2018	2017
Amortization of intangible assets	137	139

Stock based compensation

Stock based compensation expense was $357 for the three months ended December 31, 2018, compared to $147 for the three months ended December 31, 2017. The increase to stock-based compensation expense was due to the current year vesting of stock options and restricted share rights ("RSRs") granted during the current year and prior year.

($ '000s)	Three months ended December 31, 2018	2017
Stock based compensation	357	147

Foreign exchange (gain) loss

Foreign exchange gain for the three months ended December 31, 2018 was $55 compared to a loss of $94 for the three months ended December 31, 2017. The majority of the Company's foreign exchange gain or loss amounts consists of foreign exchange differences driven by our monetary assets in US dollar ("USD").

($ '000s)	Three months ended December 31, 2018	2017
Foreign exchange (gain) loss	(55)	94

The fluctuation of foreign exchange is consistent with the Canadian dollar's appreciation or depreciation as measured against the USD for each period.

Income taxes

Income tax expense was $316 for the three months ended December 31, 2018, compared to nil for the three months ended December 31, 2017.

	Three months ended December 31,	
($ '000s)	**2018**	**2017**
Current tax expense	304	-
Deferred tax expense	12	-
Income tax expense	316	-

There are a number of items that can significantly impact our effective income tax rate, including legislative rate changes, foreign currency exchange rate fluctuations, earnings subject to tax in jurisdictions where the tax rate is different than the Canadian statutory rate, fluctuations in net income, granting of equity based awards, and other permanent differences between the tax and accounting bases of our assets and liabilities. As a result, our recorded tax provision can be significantly different from the expected tax provision calculated based on the Canadian statutory rate.

Liquidity and Capital Resources

Working capital

The components of the Company's working capital on December 31, 2018 and September 30, 2018 are:

($ '000s)	**December 31 2018**	**September 30, 2018**
Current Assets		
Cash and cash equivalents	9,279	9,101
Restricted cash	250	250
Trade receivables	4,367	3,522
Due from customers on contract	521	727
Prepaids and other receivables	422	285
Inventory	3,303	2,873
	18,142	**16,758**
Current Liabilities		
Trade and other payables	2,570	3,037
Amounts due to related parties	-	19
Customer deposits and deferred revenue	1,914	1,201
Income taxes payable	253	392
Current portion of other liability	105	98
	4,842	**4,747**
Working Capital	**13,300**	**12,011**

As at December 31, 2018, the Company had working capital of $13,300, compared to $12,011 as at September 30, 2018. As at December 31, 2018 the cash and cash equivalents balance was $9,279 compared to $9,101 as at September 30, 2018, an increase of $178. The change in cash and cash equivalents is primarily due to deposits received from customers on machine purchases as well as cash proceeds from the exercise of employee stock options. The Company had net cash outflows from operating activities of $113 for Q1 2019.

EnWave Canada had trade receivables of $1,702 as at December 31, 2018, compared to $940 at September 30, 2018, and NutraDried had trade receivables of $2,665 compared to $2,582 at September 30, 2018. The increase in EnWave Canada's trade receivables relates to progress billings on equipment contracts. As at December 31, 2018 and September 30, 2018 there were no significant doubtful accounts.

EnWave Canada had a due from customers on contract balance of $521 as at December 31, 2018, compared to $727 at September 30, 2018, with a decrease due to progress billings on equipment contracts. EnWave Canada had customer deposits and deferred revenue of $1,914 at December 31, 2018, compared to $1,201 as at September 30, 2018, with an increase due to deposits received on new equipment orders. The amounts due from customers on contract are billed and collected when project specific milestones are reached on each project.

Inventory as at December 31, 2018 includes completed machines and machine components of EnWave Canada of $1,764, which is an increase of $47 compared to September 30, 2018. The inventory of EnWave Canada relates to 10kW machines and related components. NutraDried's food product and packaging supplies inventory was $1,539, which is an increase of $383 compared to $1,156 at September 30, 2018 due to the increased production.

Trade and other payables as at December 31, 2018 includes $1,217 of trade payables and accrued liabilities related to EnWave Canada, compared to $1,588 as at September 30, 2018. Trade and other payables of NutraDried were $1,353, compared to $1,449 as at September 30, 2018. Trade and other payables fluctuate depending on the timing of purchases and payments related to equipment construction contracts, as well as personnel costs and related accruals.

Financing and liquidity

Cash and cash equivalents were $9,279 at December 31, 2018 compared to $9,101 as at September 30, 2018. As at December 31, 2018, we had net working capital of $13,300 compared to $12,038 as at September 30, 2018. The change in cash for the three months ended December 31, 2018 and 2017 consists of:

	Three months ended December 31,	
($ '000s)	**2018**	**2017**
Cash generated from (used in) operating activities	**(113)**	945
Cash used in investing activities	**(663)**	(161)
Cash generated from financing activities	**836**	8,850

Our working capital needs will continue to grow with revenue growth. We believe that our current working capital surplus of $13,300 is sufficient to meet our financing needs and planned growth in the near term, and that we will have access to additional capital as we further expand. We structure our machine purchase and installation contracts with a deposit payable at the time of order, which provides advanced liquidity for the construction of the machine. We believe that NutraDried will generate sufficient cash from its operations to fund its continued expansion of Moon Cheese® distribution.

Capital expenditures

During the three months ended December 31, 2018, we incurred capital expenditures of $690 (2017 - $177), related to plant and equipment. NutraDried accounted for $665 of the capital expenditures for the period with certain facility upgrades and production equipment purchases. Although we plan to continue to invest in capital equipment as necessary to support our growth, our business is not overly capital intensive. NutraDried will require additional capital expenditures to expand production capacity in the future as distribution of Moon Cheese® continues to expand. As of the date of this MD&A, we have no formal commitments for material capital expenditures, but we do anticipate our needs for investments in capital assets will grow with our business.

Contractual obligations

In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments. The following table provides information about certain of the Company's significant contractual obligations as at December 31, 2018:

($ '000s)	**Due within 1 year**	**Due between 1 - 3 years**	**Due after 3 years**	**Total**
Financial liabilities				
Trade and other payables	2,570	-	-	2,570
Income taxes payable	253	-	-	253
Other liability	105	236	103	444
	2,928	**236**	**103**	**3,267**
Commitments				
Contractual obligations including operating leases	745	876	407	2,028
Total	**745**	**876**	**407**	**2,028**

Transactions with Related Parties

During the three months ended December 31, 2018, the Company paid quarterly directors' fees to its three independent directors through a combination of cash and stock-based compensation for their services as directors of the Company.

During the three months ended December 31, 2017, the Company paid facilities rent to Heron Point Properties LLC ("Heron"), a company under common control of Creations, when NutraDried was a joint venture and ceased rental payments to Heron after the first quarter of 2017 as it no longer shared any facilities with Creations.

The table below summarizes the transactions with related parties for the three months and three months ended December 31, 2018 and 2017:

($ '000s)	**Three months ended December 31,**	
	2018	2017
	$	$
Consulting, management and directors' fees	**23**	23
Stock-based compensation	**221**	29
Facilities rent and other	**-**	5
	244	57

Compensation of key management personnel

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 is comprised of the following expenses:

($ '000s)	**Three months ended December 31,**	
	2018	2017
	$	$
Salaries, bonuses, severance and short-term benefits	**531**	406
Stock-based compensation	**221**	62
	752	468

Critical Accounting Estimates

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

Revenue recognition

The recognition of revenue as of the consolidated statement of financial position date requires management to make significant estimates primarily relating to the percentage-of-completion method to determine the amount of revenue to recognize. The stage of completion is measured by reference to the actual contract costs incurred as a percentage of total estimated costs for each contract. If the total actual contract costs were to differ by 10% from management's estimated contract costs, the amount of revenue recognized in the period would be increased or decreased by $247 (2017 - $680).

Impairment of inventory

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

Impairment of non-financial assets

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

Other liability

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

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

Warranty provision

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

New accounting standards adopted during the period

Beginning on October 1, 2018, the Company adopted certain IFRS standards and amendments. As required by IAS 34, *Interim Financial Reporting* and IAS 8*, Accounting Policies, Changes in Accounting Estimates and Errors*, the nature of these changes are disclosed below.

IFRS 15 – Revenue from Contracts with Customers

Effective October 1, 2018, the Company adopted IFRS 15, *Revenue from Contracts with Customers ("IFRS 15"), which replaces* all previous revenue recognition standards including *IAS 18, Revenue ("IAS 18") and IAS 11, Construction Contracts ("IAS 11")* and related interpretations.

IFRS 15 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. A five-step model is utilized to achieve the core principle: (1) identify the customer contract; (2) identify the contract's performance obligation; (3) determine the transaction price; (4) allocate the transaction price to the performance obligation; and (5) recognize revenue when or as a performance obligation is satisfied. New disclosures are also required.

Transition considerations

The Company adopted IFRS 15 by applying the modified retrospective method, without restatement of comparatives figures. The Company applied the following practical expedients upon adoption of IFRS 15 on October 1, 2018:

- Completed contracts – the Company applied IFRS 15 retrospectively only to contracts that were not completed contracts as at October 1, 2018.
- Contract modifications – the Company did not apply IFRS 15 retrospectively to contract modifications that occurred before October 1, 2018.

The timing of revenue recognition from the sale of small-scale, standardized machine designs was affected by the change in accounting policy. Under IFRS 15, revenue from the sale of small-scale, standardized machine designs is recognized at a point in time, when the installation of the unit is complete. Previously, under IAS 18, revenue was recognized over time using the percentage of completion method for these contracts.

The classification of revenues and selling and marketing expenses from product sales was affected by the change in accounting standards. Under IFRS 15, discounts and certain promotional expenditures are recorded as a reduction of revenue. Previously, under IAS 18*,* these costs were classified as selling and marketing expenses. The revised accounting policies had no other significant effect on revenue recognition in any of the other revenue sources.

The financial impact of adopting IFRS 15 on the opening consolidated balance sheet is as follows:

	As at October 1, 2018 $
Inventory	119
Customer deposits and deferred revenue	202
Retained deficit	83

The financial impact of adopting IFRS 15 on the consolidated statement of net loss for the three months ended December 31, 2018 is as follows:

	Amounts prior to adoption of IFRS 15 $	**Impact of adopting IFRS 15 $**	**As reported on the consolidated financial statements $**
Revenues	8,571	(765)	7,806
Sales and marketing expenses	1,741	(765)	976
Net income (loss)	-	-	-

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

Customized equipment sales 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 balance sheet 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.

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.

When an equipment purchase contract is for a customized machine design that is specific to a customer's equipment specification, the Company generally recognizes revenue over time because of continuous transfer of control to the customer. Because of control transferring over time, 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 recognised as cost of goods sold in the period they are incurred. Typically, the customized machine contacts 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.

Standardized 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, upon completion of installation of the machine at the customer's facility.

Sales of products

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 to, 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. 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.

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.

The Company has provided the table below for to show the effect the presentation change for certain discounts and promotional expenditures under IFRS 15 on the fiscal year 2018 financial statements:

($ '000s)	Three months ended				Year ended
	Dec 31, 2017	**Mar 31, 2018**	**Jun 30, 2018**	**Sep 30, 2018**	**Sep 30, 2018**
As previously reported					
Revenues	4,519	4,172	6,779	7,355	22,825
S&M expenses	590	683	1,105	1,353	3,731
Net (loss) income	(397)	(519)	(104)	75	(945)
IFRS 15 presentation adjustment(1)	153	166	372	549	1,240
If reported under IFRS 15					
Revenues	4,366	4,006	6,407	6,806	21,585
S&M expenses	437	517	733	804	2,491
Net (loss) income	(397)	(519)	(104)	75	(945)

Note:
(1) Amount represents certain discounts and promotional expenses that are recorded as a reduction of revenue under IFRS 15.

IFRS 9 - Financial Instruments

Beginning on October 1, 2018, the Company adopted IFRS 9, *Financial Instruments* ("IFRS 9") which replaces IAS 39, *Financial Instruments: Recognition and Measurement* and related amendments to IFRS 7, *Financial Instruments: Disclosures* and provides detailed guidance on classification and measurement of financial assets and liabilities, impairment of financial assets, and hedge accounting. There was no material impact to the Company's consolidated financial statements with regards to the changes in IFRS on the classification and measurement of financial assets and liabilities and hedge accounting.

The following table summarizes the classification of the Company's financial instruments under IAS 39 and IFRS 9:

	IAS 39 Classification	**IFRS 9 Classification**
Financial assets		
Cash and cash equivalents	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Trade receivables	Loans and receivables	Amortized cost
Due from customers on contract	Loans and receivables	Amortized cost
Financial liabilities		
Trade and other payables	Other financial liabilities	Amortized cost
Amounts due to related parties	Other financial liabilities	Amortized cost
Customer deposits and deferred revenue	Other financial liabilities	Amortized cost
Other liability	Other financial liabilities	Amortized cost

Accounting standards and amendments issued and not yet adopted

IFRS 16 - Leases

In January 2016, IFRS 16, *Leases*, was issued which requires, among other things, lessees to recognize leases traditionally recorded as operating leases in the same manner as financing leases. The standard replaces IAS 17, *Leases*, and is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted. The Company is in the process of assessing the impact of the new standard.

Financial Instruments

Financial instruments and risk management

The Company's cash and cash equivalents, restricted cash, trade receivables, trade and other payables and amounts due from related parties 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. The three levels of the fair value hierarchy are:

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; or
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:

Financial assets	
Cash and cash equivalents	Amortized cost
Restricted cash	Amortized cost
Trade receivables	Amortized cost
Due from customers on contract	Amortized cost
Financial liabilities	
Trade and other payables	Amortized cost
Amounts due to related parties	Amortized cost
Customer deposits and deferred revenue	Amortized cost
Other liability	Amortized cost

The fair value of financial assets and financial liabilities classified as amortized costs 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.

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 the Company to concentrations of credit risk consist of cash and cash equivalents, restricted cash, trade receivables, and due from customers on contract. The Company mitigates its exposure to credit loss by maintaining cash balances with major Canadian financial institutions.

The Company provides credit to its customers in the normal course of business and, as such, has exposure to credit risk in relation to the collection of trade receivables. Prior to issuing credit, management reviews the customer, taking into account its financial position, historical experience, and other factors. The Company minimizes its credit risk associated with trade receivables by maintaining ongoing close contact with customers, by requiring commercial letters of credit, and by reviewing individual account balances, and proactively following up on overdue amounts. The Company maintains an allowance for doubtful accounts relating to specific losses estimated on individual exposures. As at December 31, 2018, and 2017, the Company has recorded $nil allowance for doubtful accounts.

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

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

The following table provides information regarding the aging of receivables as at December 31, 2018:

($ '000s)	**Neither past due nor impaired**	**Past due but not impaired**		
	0 – 30	**31 – 90**	**91 – 365**	**365 +**
Trade receivables	3,988	21	358	-
Due from customers on contract	521	-	-	-
Total	4,509	21	358	

Liquidity risk

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

Financial assets maturity table:

($ '000s)	**0 - 30**	**31 - 90**	**91 - 365**	**365 +**
Cash and cash equivalents and restricted cash	9,279	-	250	-
Trade receivables	3,998	21	358	-
Due from customers on contract	521	-	-	-
Total	13,798	21	608	-

Financial liabilities maturity table:

($ '000s)	**0 - 30**	**31 - 90**	**91 - 365**	**365 +**
Trade and other payables	2,570	-	-	-
Income taxes payable	-	253	-	-
Other liability	-	33	72	339
Total	2,570	286	72	339

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

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

The Company attempts to ensure that sufficient funds are raised from equity financings 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 December 31, 2018, the Company had cash and cash equivalents of $9,279 to settle current liabilities of $4,842. The Company plans to fund the deficit of cash and cash equivalents to current liabilities through collection of accounts receivables and meeting milestones on equipment contracts that trigger additional customer payments.

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. The Company earns interest on deposits based on current market interest rates, which during the three months ended December 31, 2018 ranged from 1.35% to 2.20% (2017 – 1.10% to 1.87%). A 1% change in interest rates would affect the results of operations for the three months ended December 31, 2018 by approximately $15 (2017 - $38).

The Company has amounts due to related parties that bear interest. The interest rates are fixed and the Company considers the interest rate risk to be low.

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;

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

(iii) The Company purchases machine parts from European suppliers and is exposed to currency risk as a portion of its expenses are incurred in Euros;

A significant change in the currency exchange rate of the Canadian dollar relative to the US dollar and Euro currencies could have an effect on the Company's results of operations. As at December 31, 2018, 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 December 31, 2018 and 2017, 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 three months ended December 31, 2018 and 2017 as follows:

($ '000s)	**Three months ended December 31,**	
Currency	**2018**	**2017**
US dollar	103	197
Euro	(4)	(3)

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.

Non-IFRS Financial Measures

In addition to results reported in accordance with IFRS, EnWave also uses certain non-IFRS financial measures as supplemental indicators of its financial and operating performance. Non-IFRS financial measures include NutraDried Royalties and Adjusted EBITDA. Management believes that these supplementary financial measures reflect the Company's ongoing business in a manner that allows for meaningful period-to-period comparisons and analysis of business trends.

We reference the NutraDried royalty payment to the Company which is an intercompany transaction that is eliminated upon consolidation from revenue as reported in the Company's consolidated financial statements. The Company reports the royalty payments to itself from NutraDried because it provides the amount of royalties being paid by NutraDried under its license agreement with the Company. The intercompany royalty revenue does not have any standardized meaning under IFRS and therefore may not be comparable to other similar measures presented by other issuers. The table below provides a reconciliation of the NutraDried royalty to revenues as reported the Company's consolidated financial statements:

($ '000s)	*Mar 31, 2017*	*Jun 30, 2017*	*Sep 30, 2017*	*Dec 31, 2017*	*Mar 31, 2018*	*Jun 30, 2018*	*Sep 30, 2018*	*Dec 31, 2018*
NutraDried Royalty	60	91	100	118	122	254	327	357
Intercompany Revenue Adjustment(1)	(60)	(91)	(100)	(118)	(122)	(254)	(327)	(357)
Revenues(2)	4,183	4,674	3,630	4,519	4,172	6,779	7,355	7,806
Revenues	4,183	4,674	3,630	4,519	4,172	6,779	7,355	7,806

Notes:
(1) Adjustment to eliminate intercompany revenue from the consolidated financial statements.
(2) Revenues as reported in the Company's consolidated statements of net loss for the period.

We define Adjusted EBITDA as earnings before deducting amortization and depreciation, stock based compensation, foreign exchange gain or loss, finance expense or income, income tax expense and non-recurring impairment charges. We believe that Adjusted EBITDA is a useful measure as it provides an indication of the operational results of the business. We consider Adjusted EBITDA to be a key measure as it provides an alternative measure of profitability, before taking into account the Company's non-cash expenses, and it is used by management to measure performance; however, this metric is not defined under IFRS. As a result, this amount may not be comparable to those calculated by other issuers.

Below is a reconciliation of our quarterly net income (loss) to Adjusted EBITDA for the last eight quarters:

		2017				**2018**		
($ '000s)	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Net income (loss) after income tax	(779)	(529)	(1,060)	(397)	(519)	(104)	75	(15)
Amortization and depreciation	477	515	483	483	436	495	564	578
Stock based compensation	339	300	230	147	129	126	143	357
Foreign exchange (gain) loss	18	39	54	94	(54)	(27)	(2)	(55)
Finance (income) expense	11	5	15	(12)	12	(42)	(18)	(18)
Income tax expense	-	-	-	-	-	-	538	316
Non-recurring impairment charges	-	-	-	-	-	865	-	-
Adjusted EBITDA	66	330	(278)	315	4	1,313	1,300	1,163

Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS, and other companies may calculate these measures differently. The presentation of non-IFRS financial measures is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

Forward-looking Statements

Certain statements in this MD&A constitute forward-looking statements, based on management's expectations, estimates and projections. All statements that address expectations or projections about the future, including statements about the Company's strategy for growth, research and development, market position, expected expenditures and financial results are forward-looking statements. Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of the Company and other results and occurrences may differ from those reflected in the forward–looking statements due to a variety of risks, uncertainties and other factors, including, without limitation:

- EnWave's ultimate success in selling, licensing or generating a sustainable royalty stream from its *freeze*REV®, *nutra*REV®, *quanta*REV® and *powder*REV® technologies in the biotechnology and food industries will depend, in a large part, on whether these targeted markets view our technologies ("the EnWave technologies") as safe, effective and economically beneficial. Market acceptance will also depend on the Company's ability to demonstrate that the EnWave technologies are attractive alternatives to existing options. If the Company fails to demonstrate feasibility, commercially viable scale that yields acceptable product quality and equipment performance standards, or competes successfully against existing or potential competitors, its operating results may be adversely affected.
- EnWave's technologies targeted for use in the pharmaceutical industry will be subject to regulatory approval by a number of government entities, including the Food and Drug Administration ("FDA") in the United States and by comparable authorities in other countries. Technology development within this regulatory framework takes a number of years and may involve substantial expenditures. Any delays in obtaining regulatory approval would have an adverse impact on the Company's ability to earn future revenues.
- Research and development activities for new technologies are costly and may not be successful. There is no assurance that any of EnWave's technologies will be approved for marketing by the FDA or the equivalent regulatory agency of any other country. There is also no assurance that the Company will be able to generate additional technology candidates for its pipeline, either through internal research and development, or through the in-licensing or acquisition of other technologies. Even if a technology is approved for marketing by the applicable regulatory agency, there is no assurance that the Company will be able to ultimately deliver this technology on a commercial scale or obtain approvals for other technology platforms in the development pipeline.
- EnWave's business is dependent upon securing proprietary rights to its technologies and the Company may be subject to intellectual property infringement claims by others or may not ultimately receive issued patents in all jurisdictions where patents are pending or for new applications.
- EnWave is partially dependent on third-party groups for developing its technology. The inability to design and build commercial scale technology in a timely manner could result in significant delays in development and commercialization of its technologies, which could adversely affect the Company's business, financial condition and results of operations.
- EnWave depends on third-party collaborators to license, co-develop and jointly commercialize some of its technologies. There is no guarantee these third-parties will meet the Company's expectations or be able to find commercial opportunities with the technology to support successful commercialization of the EnWave technologies.
- EnWave's business success and progress is dependent upon securing additional funding to expand its business and develop new technologies. If the Company cannot raise capital from investors or secure grants, it may limit the Company's research and development, ongoing testing programs, regulatory approvals and ultimately impact its ability to commercialize its technologies.

Actual results could, however, be substantially different due to the risks and uncertainties associated with and inherent to EnWave's business, as more particularly described in the *"Risk Factors*" section of this document. Additional risks and uncertainties applicable to the forward looking statements set out herein include, but are not limited to: fluctuations in EnWave's quarterly operating results; fluctuations in EnWave's operating and capital expenses; fluctuations in foreign exchange rates and interest rates that negatively impact EnWave; new or increased competition from other companies developing microwave vacuum technology; the inaccuracy of industry data and projections relied upon by EnWave; interruptions to EnWave's supply chain for key machine components; EnWave will become involved in material litigation; material defects and component quality of parts and raw materials sourced from EnWave suppliers; unforeseen changes to food safety and compliance regulations in the U.S. food processing industry; R&D efforts may not result in the creation of new or enhanced products in a timely or cost-effective fashion or at all; EnWave's royalty partners' and licensees' unwillingness to continue doing business with EnWave on favourable terms or at all; EnWave's business development efforts may not result in increased vertical and market penetration in the global dehydration industry; EnWave's technology may not function as intended or be suitable for the end users it is intended for; unknown or unexpected defects with EnWave's technology that are not correctable in a timely or cost-effective fashion or at all; necessary additional financing may not be available on favourable terms or at all; inability to recruit and retain qualified personnel; legal or regime changes, including changes to import and export requirements of foreign jurisdictions; political risk of domestic and foreign nations; war, terrorism, rebellion, revolt, protests, or other civil conflict; unionization, strikes or labour unrest; the global economic climate; general market trends; EnWave's intellectual property may not be sufficiently protected against third party infringement or misappropriation; EnWave's products may materially infringe a third party's intellectual property rights; the ongoing ability and desirability of licensees to continue paying EnWave patent licensing royalties on a timely basis or at all; material litigation may arise; material unexpected costs related to EnWave's technology liability or warranty; loss Starbucks and/or Costco as a customer of NutraDried; information technology data and security breaches; fire, flood, earthquake, or other natural events; failure to obtain necessary permits, certifications, and authorizations; foreign currency fluctuations; dairy and other food commodity pricing fluctuations; share price volatility; deficiencies in accounting policies or internal controls and procedures over financial reporting; insufficiency of insurance; unavailability of certain tax credits; and unexpected tax liabilities.

Although EnWave has attempted to identify factors that may cause actual actions, events or results to differ materially from those disclosed in the forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, predicted, estimated or intended. Also, many of the factors are beyond the control of EnWave. Accordingly, readers should not place undue reliance on forward-looking statements. EnWave undertakes no obligation to reissue or update any forward-looking statements as a result of new information or events after the date hereof except as may be required by law. All forward-looking statements contained in this MD&A are qualified by this cautionary statement.

Off-balance Sheet Arrangements

There are no off-balance sheet arrangements.

Capital Structure and Outstanding Share Data

The common shares, warrants, options and RSRs outstanding and exercisable as at the following dates are shown below:

	December 31, 2018		February 27, 2019	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Common shares outstanding	101,802,236		102,223,315	
Options				
Outstanding	7,576,000	1.17	7,226,000	1.16
Exercisable	4,495,899	1.17	4,152,566	1.09
RSRs				
Outstanding	825,000	n/a	825,000	n/a
Warrants				
Investor warrants	8,007,075	1.39	8,115,895	1.38
Agent's warrants	491,237	1.05	194,221	1.05

As of the date of this MD&A, the Company has 102,223,315 common shares issued and outstanding. We maintain a Stock Option Plan (the "Option Plan") that enables us to grant options to directors, officers, employees and consultants. We maintain a Restricted Share Rights Plan (the "RSR Plan") that enables us to grant RSRs to directors, officers, employees and consultants. The Option Plan and RSR Plan permits the granting of compensation securities up to an aggregate maximum of 10% of our issued and outstanding common shares from time to time on a non-diluted basis, and the maximum number of RSRs granted thereunder is further limited to 1,000,000.

Other MD&A Requirements

Information pursuant to National Instrument 51-102.

Copies of all previously published financial statements, management discussion and analyses, meeting materials, press releases, etc., are available on Company's website at www.enwave.net, or on the SEDAR website at www.sedar.com.

Directors and officers as at the date of this MD&A:

Directors
John P.A. Budreski
Brent Charleton
Dr. Stewart Ritchie
Mary C. Ritchie
Hugh McKinnon
Stephen Sanford

Senior Officers	Position
John P.A. Budreski	Executive Chairman
Brent Charleton, CFA	President and Chief Executive Officer
Dan Henriques, CPA, CA	Chief Financial Officer

Contact information:

Corporate and strategic	Investor Inquiries	Administration and Finance
Brent Charleton, CFA President and Chief Executive Officer Telephone (+1) 778 378 9616 bcharleton@enwave.net	Deborah Honig Investor Relations Telephone (+1) 647 203 8793 bcharleton@enwave.net	Dan Henriques, CPA, CA Chief Financial Officer Telephone (+1) 604 835 5212 dhenriques@enwave.net

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