ENWAVE CORPORATION

# Third quarter 2019
# Management Discussion and Analysis

Nine months ended June 30, 2019

(expressed in thousands of Canadian dollars)

Dated: August 28, 2019

**ENWAVE CORPORATION**
**(“EnWave” or the “Company”)**

**MANAGEMENT DISCUSSION AND ANALYSIS**
**THIRD QUARTER**
**FOR THE NINE MONTHS ENDED JUNE 30, 2019**

## Date of this report: August 28, 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 nine months ended June 30, 2019 relative to the nine months ended June 30, 2018, and the financial position of the Company at June 30, 2019 relative to September 30, 2018. It should be read in conjunction with the EnWave’s unaudited condensed consolidated interim financial statements and accompanying notes for the three and nine months ended June 30, 2019 and 2018, as well as the 2018 annual MD&A, 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 judgments and estimates.

## EnWave Corporation

EnWave Corporation is a Vancouver-based applied technology company that builds, installs and licenses intellectual property associated with its commercial-scale, vacuum-microwave dehydration machinery for applications in the food, legal cannabis, and pharmaceutical industries. EnWave has entered into royalty-bearing commercial license agreements (“CLAs”) with twenty-nine 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, freeze drying and other incumbent technologies. 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, seafood 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 and two 10kW REV™ 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 Costco.

The Company's strategy is to grow the NutraDried business through additional distribution points, introducing new innovative product extensions and penetrating new distribution channels. NutraDried continues 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 revenues. 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)* | *Sep 30, 2017* | *Dec 31, 2017* | *Mar 31, 2018* | *Jun 30, 2018* | *Sep 30, 2018* | *Dec 31, 2018* | *Mar 31, 2019* | *Jun 30, 2019* |
|---|---|---|---|---|---|---|---|---|
| NutraDried Royalty(1) | 100 | 118 | 122 | 254 | 327 | 357 | 366 | 270 |

(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

### Aurora Strategic Investment

On April 26, 2019, the Company issued 5,302,227 common shares on a private placement basis to Aurora Cannabis Inc. ("Aurora") in exchange for consideration of 840,576 common shares of Aurora. The company disposed of the common shares of Aurora immediately on closing of the private placement for gross proceeds of $10,087 and incurred share issuance costs of $910 related to professional fees, legal fees and other fees related to the transaction. Aurora's strategic investment the ("Aurora Investment") in the Company was designed to create economic alignment between EnWave and Aurora in the deployment of REV™ technology into the European Union, South America and Australian markets for industrial cannabis processing. Aurora has signed an exclusive, royalty bearing license agreement with sub-licensing rights for the use of EnWave's REV™ technology in the European Union (excluding Portugal) and South America (excluding Peru). Aurora has an exclusive option to secure a royalty bearing license agreement with sub-licensing rights for Australia. The scope of the licensing arrangement with Aurora is further discussed in the *Commercial Licensing and Partnership Development* section of this MD&A.

### Intellectual Property Agreement with Aurora

On April 26, 2019, Aurora and EnWave entered into an Intellectual Property Agreement (the "IPA") with the intent to jointly-develop new innovations relating to REV™ technology that are applicable to the cannabis industry. All intellectual property developed under the IPA will be owned by EnWave, but any realizable commercial value will be shared on an undisclosed basis with Aurora. EnWave's R&D personnel will collaborate with Aurora in the near term to develop new innovations and potential intellectual property for the expansion of REV™ technology into the cannabis industry.

### Reorganization of NutraDried Sales Function

On April 1, 2019, NutraDried reorganized its sales and marketing function with the hiring of a new Senior Vice President of Sales and a Chief Marketing Officer, and terminated its Management Services Agreement (the "Slant Agreement") with Slant Design and Marketing Inc. The Company incurred a one-time restructuring cost of US $464 (CA $612) in the form of a contract termination payment in order to terminate the Slant Agreement. With the hiring two executives with extensive sales and marketing expertise in the food and consumer products industry, NutraDried expects to reduce the overall cost of its sales and marketing function. NutraDried will have now a full-time dedicated sales and marketing team focussed on growing the Moon Cheese® brand.

## Overall Performance

For the first three quarters of fiscal 2019, the Company had consolidated revenues of $26,654, compared to $15,470 in the same period in fiscal 2018, an increase of 72% or $11,184. The Company had a consolidated net loss of $1,561 in the three quarters of fiscal 2019, compared to a consolidated net loss of $1,020 for fiscal 2018, an increase of $541. During the first three quarters of 2019, the Company continued to build momentum with increased revenues and operating cash flows from an increased volume of machine sales and continued growth of Moon Cheese®. The Company reported Adjusted EBITDA of $2,304 for the three quarters of 2019 compared to $1,632 for the three quarters of 2018, an increase of $672.

EnWave Canada reported revenues of $8,562 for the nine months ended June 30, 2019 compared to $5,499 for the nine months ended June 30, 2018, an increase of $3,063. EnWave Canada reported a segment loss of $4,082 for the nine months ended June 30, 2019 compared to $2,827 for the nine months ended June 30, 2018, an increase of $1,255. The Company secured a significant number of equipment purchase orders at the end of Q2 2019 and early Q3 2019 that will continue to increase EnWave Canada's revenues for the remainder of fiscal year 2019.

NutraDried reported revenues of $18,092 for the nine months ended June 30, 2019, compared to $9,971 for the nine months ended June 30, 2018, an increase of $8,121 or 81%. NutraDried reported segment income of $2,556 for the nine months ended June 30, 2019, compared to $2,280 for the nine months ended June 30, 2018, an increase of $276. NutraDried's revenues improved year over year due to additional distribution of Moon Cheese® into the U.S. and Canadian markets.

The overall financial performance of the Company improved in the three quarters of 2019 was driven by continued growth in the NutraDried business and EnWave Canada having eight large-scale REV™ equipment purchase contracts open in the third quarter.

**Commercial Licensing and Partnership Development**

_License and Equipment Purchase Agreement with Electric Farms LLC_

On July 25, 2019, the Company signed a royalty-bearing CLA with Electric Farms LLC ("Electric Farms"), a U.S. hemp producer."). Electric Farms cultivates high-quality hemp flowers in both indoor and outdoor facilities at its licensed facility located in Tennessee. Electric Farms purchased a 10kW REV™ machine to facilitate the rapid dehydration of industrial hemp for commercial sale.

_Licenses and Equipment Purchase Agreements with Aurora Cannabis Inc._

On April 26, 2019, the Company signed a royalty-bearing Sub-License Agreement with Aurora granting it non-exclusive processing rights to use REV™ technology in Canada for the rapid dehydration of cannabis products. Pursuant to the Canadian Sub-License Agreement, Aurora purchased two 120kW REV ™ processing lines and one 10kW R&D machine to be installed at the Aurora Sky and Aurora Sun cultivation facilities in Canada.

The Company granted Aurora a Commercial License Agreement for the rapid dehydration of cannabis products in the European Union, except for Portugal, where the Company has already granted a license to Tilray. The European Commercial License Agreement is exclusive to Aurora with the ability for EnWave and Aurora to grant sub-licenses for cannabis processing within the European continent. Aurora must commit to the purchase of 120kW REV™ machine for installation in Europe in order to maintain the exclusivity of the European license agreement. EnWave and Aurora are currently negotiating the scope of an EU-GMP certified machine for Aurora's Nordic facility in Europe.

Additionally, Aurora must meet annual minimum equipment purchases and annual minimum royalties under the European Commercial License Agreement in order to retain its exclusivity. Royalties generated from sub-licenses in Europe will be shared between EnWave and Aurora on an undisclosed basis.

On May 29, 2019, Aurora signed an exclusive Commercial License Agreement to utilize EnWave's technology in South America (excluding Peru). The terms of the South American License Agreement are substantially the same as the European License Agreement, with the requirements to meet annual minimum equipment purchases and annual minimum royalties to retain exclusivity. Aurora has signed an equipment purchase agreement for a 60kW REV™ machine to be installed in South America in 2020.

_License and Equipment Purchase Agreement with Calbee_

On May 13, 2019, EnWave and Calbee Inc. ("Calbee") signed a royalty-bearing Commercial License and Equipment Purchase Agreement for the purchase of a 10kW REV™ dehydration machine. Calbee will explore and pilot the use of the Company's REV™ technology for the development of premium snack products and ingredients in Japan. Calbee is a major Japanese company engaged in the manufacturing and sales of snack confectionary, bakery and cereal food.

_License and Equipment Purchase Agreements with Consulting Fresh Business_

On April 10, 2019, EnWave and Fresh Business Consulting S.L. ("Fresh Business") signed a royalty bearing commercial license agreement granting Fresh Business the exclusive rights to produce a variety of premium food products in Peru. Fresh Business purchased a 10kW small scale REV™ machine to initiate commercial production. Fresh Business will use the locally grown agriculture in Peru partnered with the Company's REV™ technology to provide healthy fruit and vegetable products to be sold commercially. Fresh Business has paid a non-refundable deposit for an EnWave machine of 100kW or greater power and must commit to purchasing a machine of 100kW or greater in rated power before December 31, 2019 in order to retain its exclusivity under the agreement.

*Installation and Commissioning of Tilray's REV™ Machinery*

The Company commissioned the first 60kW REV™ machine at Tilray's Ontario facility in August 2019 for commercial dehydration of cannabis. The machine is expected to begin commercial operations in late Q4 2019 or early Q1 2020 and will represent the first commercial-scale machine installed for cannabis processing in Canada. The commissioning of this 60kW REV™ machine marks the first EnWave machine installed for commercial processing of cannabis products. The Company has secured a pipeline of additional machine orders from other cannabis and hemp companies that have not yet been commissioned.

**Machine Fabrication Pipeline:**

The table below summarizes the current fabrication and commissioning pipeline of machines purchased by EnWave licensees under Equipment Purchase Agreements as of the date of this MD&A:

| Licensee | Machine Capacity | Licensed Product | Territory |
|---|---|---|---|
| Tilray | 60kW | Cannabis | Portugal |
| Milne Microdried Inc. | 120kW | Fruit and vegetables | United States |
| The Green Organic Dutchman | 60kW | Cannabis | Canada |
| The Green Organic Dutchman | 120kW | Cannabis | Canada |
| The Green Organic Dutchman | 120kW | Cannabis | Canada |
| The Green Organic Dutchman | 120kW | Cannabis | Canada |
| Aurora | 120kW | Cannabis | Canada |
| Aurora | 120kW | Cannabis | Canada |
| Aurora | 60kW | Cannabis | South America |
| Calbee | 10kW | Fruits and vegetables | Japan |
| Electric Farms | 10kW | Hemp | United States |

**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$^{TM}$ 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 **5 active TELOAs** with prospective licensees evaluating the use of REV$^{TM}$ 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.

**Cannabis Industry Developments**

EnWave is engaging with numerous companies in the global cannabis market where legalized for either medical or recreational uses. EnWave is in active discussions with over two dozen companies for potential licensing of the REV$^{TM}$ dehydration technology to allow cannabis producers to decrease drying times, increase yield and ensure specific composition of the finished product. EnWave provides potential partners the ability to visit the research and development pilot plant for trials which demonstrates the benefits and efficacy of the REV$^{TM}$ drying machines.

EnWave currently has secured purchase orders for large-scale REV$^{TM}$ machines with Aurora, Tilray and The Green Organic Dutchman, all leading global cannabis companies. With these valued partnerships verifying the capabilities of the Company's patented technology, EnWave expects continued growth in the number of royalty-bearing commercial licenses and equipment purchase contracts for this vertical.

As part of the joint commercialization strategy with Aurora, EnWave will work with Aurora's subsidiary company, Aurora Larsen Projects ("ALPS") that specializes in technical consulting and engineering of cultivation and processing operations specific to the cannabis industry. The strategy under this joint effort will be to leverage ALPS' to promote the use of the EnWave's REV$^{TM}$ dehydration technology to their clientele during the design and construction of greenhouse operations.

**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.

**NutraDried Food Company**

Sales and distribution of Moon Cheese® throughout Canada and the U.S. continued to build momentum during the three quarters of 2019. At the end of fiscal year 2018, NutraDried commissioned its second large-scale 100kW REV$^{TM}$ machine and doubled its production capacity to 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. NutraDried continues to distribute product into several Costco divisions, distribution in Costco is temporary, and Moon Cheese® is not yet an everyday item at Costco. Moon Cheese will be included in Most Valuable

Member ("MVM") coupon program in September 2019 which will result in temporary distribution to all eight of the Costco divisions in the U.S.

NutraDried's strategy is to continue to grow its core distribution in the U.S. mainstream retail grocery channel by securing national retail accounts. NutraDried has enhanced their marketing strategies and public relations to develop further opportunities in the retail markets.

## Summarized Quarterly Results

The following is a selected summary of quarterly results for the eight most recently completed quarters to June 30, 2019 reported in Canadian dollars, the Company's presentation currency:

| | 2017 | 2018 | | | | 2019 | | |
|---|---|---|---|---|---|---|---|---|
| *($ '000s)* | *Q4* | *Q1* | *Q2* | *Q3* | *Q4* | *Q1* | *Q2* | *Q3* |
| Revenues | 3,630 | 4,519 | 4,172 | 6,779 | 7,355 | 7,806 | 8,773 | 10,075 |
| Direct costs | (2,764) | (3,093) | (2,877) | (3,848) | (4,097) | (4,769) | (5,653) | (7,217) |
| Gross profit | 866 | 1,426 | 1,295 | 2,931 | 3,258 | 3,037 | 3,120 | 2,858 |
| Expenses | (1,926) | (1,823) | (1,814) | (3,035) | (2,645) | (2,736) | (3,062) | (4,149) |
| Income tax expense | - | - | - | - | (538) | (316) | (282) | (31) |
| Net (loss) income after income tax | (1,060) | (397) | (519) | (104) | 75 | (15) | (224) | (1,322) |
| Adjusted EBITDA | (278) | 315 | 4 | 1,313 | 1,300 | 1,163 | 1,002 | 139 |
| Loss per share – Basic and diluted | (0.01) | (0.01) | (0.01) | (0.01) | 0.00 | (0.00) | (0.00) | (0.01) |
| Total assets | 13,344 | 21,926 | 20,108 | 20,958 | 22,162 | 23,781 | 28,114 | 40,316 |
| Total liabilities | 3,312 | 2,955 | 3,692 | 4,190 | 5,240 | 5,348 | 8,919 | 9,447 |
| Minority interest | 1,763 | 1,990 | - | - | - | - | - | - |

EnWave's revenues, direct costs and net loss fluctuate based on the timing of machine orders from companies in our sales pipeline. 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. This 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.

Revenues for Q3 2019 are higher than Q1 & Q2 2019 due to an increase in machine orders and production at the end of Q2 2019. NutraDried increased revenues for Q1 2019 and Q2 2019 with more product rotations in Costco. For Q3 2019, NutraDried's revenues were lower than for Q1 and Q2 2019, which were offset by additional machine revenue from EnWave Canada. Direct costs have increased with revenue growth as it relates to NutraDried's product sales revenues. Expenses increased in Q3 2019 relative to Q1 & Q2 2019 due to additional personnel costs and recruiting costs tied to growth as well as additional marketing costs and a restructuring cost related to NutraDried.

## 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 three and nine months ended June 30, 2019 and 2018, and should be read in conjunction with those financial statements.

| *($ '000s)* | **Three months ended June 30,** | | | **Nine months ended June 30,** | | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | Change % | **2019** | 2018 | Change % |
| Revenues | **10,075** | 6,779 | 49% | **26,654** | 15,470 | 72% |
| Direct costs | **7,217** | 3,848 | 88% | **17,639** | 9,818 | 80% |
| Gross margin | **2,858** | 2,931 | (2%) | **9,015** | 5,652 | 60% |
| Operating expenses | | | | | | |
| General and administration | **1,118** | 510 | 119% | **3,165** | 1,709 | 85% |
| Sales and marketing | **1,203** | 1,105 | 9% | **3,263** | 2,378 | 37% |
| Research and development | **665** | 332 | 100% | **1,375** | 900 | 53% |
| | **2,986** | 1,947 | 53% | **7,803** | 4,987 | 56% |
| Net loss after taxes | **(1,322)** | (104) | (1,170%) | **(1,561)** | (1,020) | (53%) |
| Loss per share – basic and diluted | **$ (0.01)** | $ (0.00) | | **$ (0.02)** | $ (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 June 30,** | | **Nine months ended June 30,** | |
|---|---|---|---|---|
| *($ 000's)* | **2019** | **2018** | **2019** | **2018** |
| Revenue | 10,075 | 6,779 | 26,654 | 15,470 |

Revenue for the nine months ended June 30, 2019 was $26,654 an increase of $11,184 compared to the nine months ended June 30, 2018. Revenue for the three months ended June 30, 2019 was $10,075, an increase of $3,296 compared to the three months ended June 30, 2018. The increase in revenues for the nine months ended June 30, 2019 is primarily due to an increase in revenues from EnWave Canada's increased volume of machinery sales from increased purchase orders combined with NutraDried's sales of Moon Cheese®. The timing and frequency of each large-scale commercial machine order affects the timing of our revenues from the sale of REV™ machinery. A portion of EnWave Canada and all of NutraDried revenue is denominated in USD and the results for the period also reflect the impact of loss in foreign exchange. If the CAD changed by $0.01 relative to the USD, our revenue for the nine months ended June 30, 2019 would have changed by $216.

**Quarterly Revenue:**

| | 2017 | 2018 | | | | 2019 | | |
|---|---|---|---|---|---|---|---|---|
| *($ '000s)* | *Q4* | *Q1* | *Q2* | *Q3* | *Q4* | *Q1* | *Q2* | *Q3* |
| EnWave Canada | 1,626 | 2,121 | 1,768 | 1,610 | 823 | 1,478 | 2,009 | 5,075 |
| NutraDried | 2,004 | 2,398 | 2,404 | 5,169 | 6,532 | 6,328 | 6,764 | 5,000 |
| Total | 3,630 | 4,519 | 4,172 | 6,779 | 7,355 | 7,806 | 8,773 | 10,075 |

EnWave Canada had revenue of $8,562 for the nine months ended June 30, 2019, an increase of $3,063 compared to the revenue of $5,499 for the nine months ended June 30, 2018. EnWave Canada had revenue of $5,075 for the three months ended June 30, 2019 compared to $1,610 for the three months ended June 30, 2018 an increase of $3,465. The increase in revenue in the third quarter of 2019 compared to the third quarter of 2018 is due to the increase in number of commercial equipment sales contracts for new REV™ equipment. During the third quarter, EnWave made substantial fabrication progress and recognized revenue from large-scale equipment purchase contracts with The Green Organic Dutchman, Aurora, Milne Microdried and Tilray.

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 $511 during the nine months ended June 30, 2019 compared to $458 for the nine months ended June 30, 2018, an increase of $53. 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 also stipulate minimum annual royalty thresholds in our commercial license agreements that must be met by the licensee in order for the licensee to retain exclusivity. The minimum annual royalties become due and payable 30 days following the end of the calendar year. As we increase the installed-base of EnWave equipment with our licensed partners we expect to see an increase in royalty revenues. EnWave will continue to seek new partnerships and provide additional REV™ machine dehydration capacity to our current royalty partners for continued growth.

Revenue from NutraDried was $18,092 for the nine months ended June 30, 2019 compared to $9,971 for the nine months ended June 30, 2018, an increase of $8,121 or 81%. In the quarter ended June 30, 2019, NutraDried had revenue of $5,000 compared to $5,169 for the quarter ended June 30, 2018, a slight decrease of $169 or 3%. NutraDried's revenue for Q3 2019 decreased compared to recent quarters due to fewer shipments to Costco. We expect revenue to increase for Q4 2019 with distribution into all U.S. Costco divisions under the Most Valuable Member ("MVM") coupon program.

NutraDried experiences variability in purchase order frequency and volumes with significant customers. There is customer concentration risk with Costco representing 50% of NutraDried's revenue for the nine months ended June 30, 2019.

### *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 June 30, | | Nine months ended June 30, | |
|---|---|---|---|---|
| *($ 000's)* | 2019 | 2018 | 2019 | 2018 |
| Direct costs | 7,271 | 3,848 | 17,639 | 9,818 |
| % of revenue | 72% | 57% | 66% | 63% |

Direct costs for the nine months ended June 30, 2019 increased by $7,821, or 80% compared to the nine months ended June 30, 2018. Direct costs for the three months ended June 30, 2019 increased by $3,423, or 89% compared to the three months ended June 30, 2018. 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 June 30, 2019 increased by 15%, and for the nine months ended June 30, 2019 increased by 3% compared to the nine months ended June 30, 2018. The increase in direct costs as a percentage of revenue is due to EnWave's machine sales comprising a higher percentage of revenues for the three months ended June 30, 2019 compared to June 30, 2018.

During the nine months ended June 30, 2019, EnWave Canada yielded a ratio of direct costs to revenue of 96%, compared to 85% for the nine months ended June 30, 2018. The decrease in gross margin for Q3 2019 is due to higher fixed costs tied to fabrication facilities and personnel expansion in preparation for growth in number of machine orders.

The ratio of direct costs to revenue was 52% for NutraDried for the nine months ended June 30, 2019, compared to 52% in the nine months ended June 30, 2018. The ratio of direct costs to revenue remained consistent due to low volatility in cheese pricing. Direct costs of NutraDried are highly dependent on the commodity pricing of raw cheese as the primary raw material used in production. The direct cost ratio of NutraDried was consistent as a result of slightly higher cheese pricing offset by higher fixed cost absorption with higher production volume. Cheese prices slightly increased in the third quarter of 2019 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 June 30, | | Nine months ended June 30, | |
|---|---|---|---|---|
| *($ 000's)* | **2019** | **2018** | **2019** | **2018** |
| General and administration | 1,118 | 510 | 3,165 | 1,709 |
| % of revenue | 11% | 8% | 12% | 11% |

G&A expenses for the nine months ended June 30, 2019 were $3,165 compared to $1,709 for the nine months ended June 30, 2018, an increase of $1,456. G&A expenses for the three months ended June 30, 2019 were $1,118 compared to $510 for the three months ended June 30, 2018. The increase in G&A expenses for the period is primarily due hiring of three mid to senior level employees at NutraDried and other additional administrative personnel. In addition to personnel cost increases due to headcount, EnWave also incurred higher legal expenses to secure new license contracts. As a percentage of revenue, G&A expenses increased by 3% for the three months ended June 30, 2019, and increased 1% for the nine months ended June 30, 2019, relative to the comparative periods in the prior year.

### *Sales and marketing*

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

| | Three months ended June 30, | | Nine months ended June 30, | |
|---|---|---|---|---|
| *($ 000's)* | **2019** | **2018** | **2019** | **2018** |
| Sales and marketing | 1,203 | 1,105 | 3,263 | 2,378 |
| % of revenue | 12% | 16% | 12% | 15% |

S&M expenses for the nine months ended June 30, 2019 were $3,263 compared to $2,378 for the nine months ended June 30, 2018, an increase of $885. S&M expenses for the three months ended June

30, 2019 were $1,203 compared to $1,105 for the three months ended June 30, 2018, an increase of $98.

S&M expenses for EnWave Canada were $1,042 for the nine months ended June 30, 2019 compared to $884 for the nine months ended June 30, 2018, an increase of $158. The increase in S&M expenses was due to personnel related costs and increased attendance at trade shows in the period. We expect S&M expenses to increase modestly for EnWave Canada as we invest in activities and personnel resources to drive market penetration and revenue growth.

S&M expenses for NutraDried were $2,221 for the nine months ended June 30, 2019 compared to $1,494 for the nine months June 30, 2018, an increase of $727. The significant increase in S&M expenses was due to a new marketing strategy to develop advertising, design and digital branding, increasing social media presence and engaging in activities firm to drive consumer awareness.

The adoption of IFRS 15 impacted the classification of certain promotional expenses and discounts that were previously recorded as S&M expenses, and are recorded as a reduction to revenues under IFRS 15 in the fiscal year 2019. The amount of these expenses for the nine months ending June 30, 2019 is $1,840. Refer to the section *New Accounting Policies Adopted during the Period.*

### *Research and development*

R&D expenses include the salaries of technicians, scientists and administration 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, R&D staff travel expenses and consumable materials. 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.

| | Three months ended June 30, | | Nine months ended June 30, | |
|---|---|---|---|---|
| *($ 000's)* | **2019** | **2018** | **2019** | **2018** |
| Research and development | 665 | 332 | 1,375 | 900 |
| % of revenue | 7% | 5% | 5% | 6% |

R&D expenses for the nine months ended June 30, 2019 were $1,375 compared to $900 for the nine months ended June 30, 2018, an increase of $475. R&D expenses for the three months ended June 30, 2019 were $665 compared to $332 for the three months ended June 30, 2018. Our R&D expenses have increased compared to the prior year primarily due to costs related to new patent applications and related patent attorney fees. R&D expenses also increased due to ongoing with partners to support new product development using the EnWave technology.

### *Amortization of intangible assets*

Amortization of intangible assets for the three and nine months ended June 30, 2019 were $92 and $337, respectively, compared to $167 and $447 for the three and nine months ended June 30, 2018, respectively. The decrease in amortization expense is due to minimal additions while certain intangible assets become fully amortized during the prior period.

| | Three months ended June 30, | | Nine months ended June 30, | |
|---|---|---|---|---|
| *($ 000's)* | **2019** | **2018** | **2019** | **2018** |
| Amortization of intangible assets | 92 | 167 | 337 | 447 |

### *Stock-based compensation*

Stock-based compensation expense was $1,310 for the nine months ended June 30, 2019, compared to $402 for the nine months ended June 30, 2018, an increase of $908. Stock-based compensation expense was $501 for the three months ended June 30, 2019, compared to $126 for the three months ended June 30, 2018, an increase of $375.

| | Three months ended June 30, | | Nine months ended June 30, | |
|---|---|---|---|---|
| *($ 000's)* | **2019** | **2018** | **2019** | **2018** |
| Stock-based compensation | 501 | 126 | 1,310 | 402 |

The increase in stock-based compensation expense was due to timing of current year vesting of stock options and restricted share rights ("RSRs") granted during the current and prior years. The Company made two grants of stock options in September 2018 and December 2018 that have related expenses recorded over an eighteen-month vesting period, resulting in the increased stock-based compensation expenses.

### *Foreign exchange loss (gain)*

Foreign exchange gain for the nine months ended June 30, 2019 was $12 compared to a loss of $13 for the nine months ended June 30, 2018. Foreign exchange loss for three months ended June 30, 2019 was $13 compared to a gain of $28 for the three months ended June 30, 2018.

| | Three months ended June 30, | | Nine months ended June 30, | |
|---|---|---|---|---|
| *($ 000's)* | **2019** | **2018** | **2019** | **2018** |
| Foreign exchange loss (gain) | 13 | (28) | (12) | 13 |

The majority of the Company's foreign exchange gain or loss amounts consists of foreign exchange differences driven by our monetary assets and liabilities in USD. EnWave's revenue for contracts outside of Canada is typically denominated in USD. The fluctuation of foreign exchange is consistent with the Canadian dollar's appreciation or depreciation as measured against the USD and Euro for each period. The Company hedges a portion of its exposure to USD by entering into forward contracts.

### *Restructuring costs*

Restructuring costs relate to a restructuring of the sales and marketing function of NutraDried. Until May 2019, the Company was under contract with Slant Design and Marketing Inc. ("Slant"), an external agency, to provide full-service sales management and marketing management for Moon Cheese®. The Company restructured the management of its sales and marketing by brining these functions in-house and hiring two full-time executives: a Senior Vice President of Sales and a Chief Marketing Officer. The Company paid a contract termination payment to Slant in order to complete the restructuring.

| | Three months ended June 30, | | Nine months ended June 30, | |
|---|---|---|---|---|
| *($ 000's)* | **2019** | **2018** | **2019** | **2018** |
| Restructuring costs | 612 | - | 612 | - |

### *Income taxes*

Income tax expense was $629 for the nine months ended June 30, 2019 compared to $nil for the nine months ended June 30, 2018. Income tax expense was $31 for the three months ended June 30, 2019, compared to $nil for the three months ended June 30, 2018.

| | Three months ended June 30, | | Nine months ended June 30, | |
|---|---|---|---|---|
| *($ 000's)* | **2019** | **2018** | **2019** | **2018** |
| Current income tax expense | 36 | - | 575 | - |
| Deferred income tax expense | (5) | - | 54 | - |
| Total income tax expense | 31 | - | 629 | - |

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 June 30, 2019 and September 30, 2018 are:

| *($ '000s)* | **June 30, 2019** | **September 30, 2018** |
|---|---|---|
| **Current Assets** | | |
| Cash and cash equivalents | **21,824** | 9,101 |
| Restricted cash | **250** | 250 |
| Trade receivables | **4,261** | 3,522 |
| Due from customers on contract | **993** | 727 |
| Prepaids and other receivables | **780** | 285 |
| Inventory | **7,234** | 2,873 |
| | **35,342** | **16,758** |
| **Current Liabilities** | | |
| Trade and other payables | **5,227** | 3,037 |
| Amounts due to related parties | **6** | 19 |
| Customer deposits and deferred revenue | **3,829** | 1,201 |
| Income taxes payable | **280** | 392 |
| Current portion of other liability | **105** | 98 |
| | **9,447** | **4,747** |
| **Working Capital** | **25,895** | **12,011** |

As at June 30, 2019, the Company had working capital of $25,895, compared to $12,011 as at September 30, 2018. As at June 30, 2019, the cash and cash equivalents balance were $21,824 compared to $9,101 as at September 30, 2018, an increase of $12,723. The change in cash and cash equivalents is primarily due the Aurora Investment with net proceeds of $9,177, the remaining increase is due to deposits received from customers on machine purchases as well as cash received from the exercise of stock options and warrants. The Company had net cash inflows from operating activities of $423 for the nine months ended June 30, 2019.

EnWave Canada had amounts due from customers on contract balance of $993 as at June 30, 2019, compared to $727 at September 30, 2018, with an increase due to progress billings on equipment contracts that are currently ongoing. EnWave Canada had customer deposits and deferred revenue of $3,829 at June 30, 2019, compared to $1,201 as at September 30, 2018, with an increase due to deposits received on multiple new large equipment orders. The amounts due from customers on contract are billed and collected when project specific milestones are reached on each project.

Inventory at June 30, 2019 is $7,234 an increase of $4,361 compared to September 30, 2018. EnWave Canada had inventory of 2,049 at June 30, 2019 and relates to 10kW machines used for rentals and those under fabrication which includes completed machines and machine components. NutraDried's food product and packaging supplies inventory was $5,185, which is an increase of $3,969 compared to $1,216 at September 30, 2018 due to an inventory build up for the Costco MVM coupon program that is planned to ship in Q4 2019.

Trade and other payables as at June 30, 2019 includes $2,642 of trade payables and accrued liabilities related to EnWave Canada, compared to $1,588 as at September 30, 2018. The increase of $1,054 is due to the multiple large equipment orders and more parts required for production. Trade and other payables of NutraDried were $2,585, compared to $1,449 as at September 30, 2018. The increase of $1,136 is due to the increase in the build of inventory and related materials ordered. Trade 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 $21,824 at June 30, 2019 compared to $9,101 at September 30, 2018. As at June 30, 2019, we had net working capital of $25,895 compared to $12,011 at September 30, 2018. The change in cash consists of:

| | **Three months ended June 30,** | | **Nine months ended June 30,** | |
|---|---|---|---|---|
| *($ 000's)* | **2019** | 2018 | **2019** | 2018 |
| Cash (used in) from operating activities | **(2,010)** | 3 | **423** | (74) |
| Cash used in investing activities | **(492)** | (639) | **(1,421)** | (3,253) |
| Cash from financing activities | **12,156** | 178 | **13,658** | 9,001 |

During Q3 2019 completed a strategic investment with Aurora resulting in net cash proceeds of $9,177. Please refer to the *Recent Developments Section, Aurora Strategic Investment.* The Company received $3,886 from the exercise of stock options and $696 from the exercise of warrants. We believe that our current working capital surplus of $25,895 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. NutraDried is generating sufficient cash from its operations to fund its continued expansion and distribution of Moon Cheese®.

### Capital expenditures

During the nine months ended June 30, 2019, we incurred capital expenditures of $1,665 (2018 - $954), related to plant and equipment. NutraDried accounted for $999 of the capital expenditures for the period with the addition of a new packaging line and other production equipment. EnWave accounted for $666 with the addition of R&D equipment for the pilot plant and the renovation of a new corporate office located in Delta, B.C.

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 maintain and expand production capacity in the future as distribution of Moon Cheese® continues to expand.

### 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 June 30, 2019:

| *($ '000s)* | Due within 1 year | Due between 1 - 3 years | Due after 3 years | Total |
|---|---|---|---|---|
| **Financial liabilities** | | | | |
| Trade and other payables | 5,227 | - | - | 5,227 |
| Income taxes payable | 280 | - | - | 280 |
| Other liability | 105 | 272 | - | 377 |
| | **5,612** | **272** | **-** | **5,884** |
| | | | | |
| **Commitments** | | | | |
| Contractual obligations including operating leases | 904 | 1,369 | 917 | 3,190 |
| **Total** | **904** | **1,369** | **917** | **3,190** |

## Transactions with Related Parties

During the three and nine months ended June 30, 2019, the Company paid quarterly directors' fees to its four independent directors through a combination of cash and stock-based compensation for their services as directors of the Company.

The table below summarizes the transactions with related parties for the three and nine months ended June 30, 2019 and 2018:

| *($ '000s)* | **Three months ended June 30,** | | **Nine months ended June 30,** | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$** | $ | **$** | $ |
| Directors' fees | **40** | 23 | **96** | 68 |
| Stock-based compensation | **25** | 46 | **73** | 98 |
| Facilities rent and other | **-** | - | **-** | 7 |
| | **65** | 69 | **169** | 173 |

### 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, for the three and nine months ended June 30, 2019 and 2018 comprises following expenses:

| *($ '000s)* | **Three months ended June 30,** | | **Nine months ended June 30,** | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$** | $ | **$** | $ |
| Salaries, bonuses and short-term employee benefits | **161** | 172 | **936** | 751 |
| Stock-based compensation | **40** | 53 | **433** | 158 |
| | **201** | 225 | **1,369** | 909 |

## 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 $239 (2018 - $536).

*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 judgment, which includes, among other factors, the selling price, less the estimated costs of completion and selling expenses.

*Impairment of non-financial assets*

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

*Other liability*

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

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

*Warranty provision*

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

## 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 June 30, 2018 is as follows:

| | Amounts prior to adoption of IFRS 15 $ | Impact of adopting IFRS 15 $ | As reported on the consolidated financial statements $ |
|---|---|---|---|
| Revenues | 28,494 | (1,840) | 26,654 |
| Sales and marketing expenses | 5,103 | (1,840) | 3,263 |
| Net income (loss) | - | - | - |

The financial impact of adopting IFRS 15 on the consolidated statement of net loss for the nine months ended June 30, 2018 is as follows:

| | Amounts prior to adoption of IFRS 15 $ | Impact of adopting IFRS 15 $ | As reported on the consolidated financial statements $ |
|---|---|---|---|
| Revenues | 10,487 | (412) | 10,075 |
| Sales and marketing expenses | 1,615 | (412) | 1,203 |
| 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 judgment 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 contracts of the Company do not have a duration of greater than 12 months, and the Company has applied the practical expedient under IFRS 15.121.

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

*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 to show the effect the presentation change for certain discounts and promotional expenses under IFRS 15 on the fiscal year 2018 financial statements:

| *($ '000s)* | Quarter 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 2017, 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. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term greater than twelve months, unless the underlying asset's value is insignificant. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessors will continue to classify leases as operating or finance, with lessor accounting remaining substantially unchanged from the preceding guidance under IAS 17, *Leases*.

The Company is in the process of executing its implementation plan, which includes an initial scoping to identify material lease contracts and the analysis of such contracts to quantify the transitional impact. IFRS 16 is expected to result in materially higher non-current assets and non-current liabilities on the consolidated statement of financial position. IFRS 16 will also impact the presentation of the consolidated statement of cash flows by decreasing cash flows used in operating activities and increasing cash flows used within financing activities, as the principal component of lease payments currently reflected as an operating activity will be presented as a financing activity. The Company is currently considering adoption of IFRS 16 through the modified retrospective approach effective October 1, 2019.

## Financial Instruments

### Financial instruments and risk management

The Company's cash and cash equivalents, restricted cash, trade receivables, receivables from related parties, 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 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 June 30, 2019 and September 30, 2018, 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 and U.S. 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 June 30, 2019:

| *($ '000s)* | **Neither past due nor impaired** | **Past due but not impaired** | | |
|---|---|---|---|---|
| | **0 – 30 days** | **31 – 90 days** | **91 – 365 days** | **365 + days** |
| Trade receivables | 3,802 | 213 | 246 | - |
| Due from customers on contract | - | 993 | - | - |
| Total | 3,802 | 1,206 | 246 | - |

*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 days** | **31 – 90 days** | **91 – 365 days** | **365 + days** |
|---|---|---|---|---|
| Cash and cash equivalents and restricted cash | 21,824 | - | 250 | - |
| Trade receivables | 3,802 | 213 | 246 | - |
| Due from customers on contract | - | 993 | - | - |
| Total | 25,626 | 1,206 | 496 | - |

Financial liabilities maturity table:

| *($ '000s)* | **0 – 30 days** | **31 – 90 days** | **91 – 365 days** | **365 + days** |
|---|---|---|---|---|
| Trade and other payables | 5,220 | 6 | 1 | - |
| Amounts due to related parties | 6 | - | - | - |
| Income taxes payable | 280 | - | - | - |
| Total | 5,506 | 6 | 1 | - |

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 June 30, 2019, the Company had cash and cash equivalents of $21,824 to settle current liabilities of $9,447.

*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 nine months ended June 30, 2019 ranged from 1.85% to 2.30% (2018 - 1.10% to 1.95%). A 1% change in interest rates would affect the results of operations for the nine months ended June 30, 2019 by approximately $160 (2018 - $56).

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 and Euros;

(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 June 30, 2019, 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 when appropriate. At June 30, 2019 and September 30, 2018, the Company held no foreign exchange contracts. The fair values of the foreign exchange derivatives are recurring measurements and are determined whenever possible based on observable market data. If observable market data on the financial derivatives is not available, the Company uses observable spot and forward foreign exchange rates to estimate their fair values.

A change in the value of the Canadian dollar by 10% relative to foreign currencies the Company is exposed to would have affected the Company's net loss for the nine months ended June 30, 2019 and 2018 as follows:

*($ '000s)*

| Currency | **2019** | **2018** |
|---|---|---|
| US dollar | 514 | 531 |

**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)* | *Sep 30, 2017* | *Dec 31, 2017* | *Mar 31, 2018* | *Jun 30, 2018* | *Sep 30, 2018* | *Dec 31, 2018* | *Mar 31, 2019* | *Jun 30 2019* |
|---|---|---|---|---|---|---|---|---|
| NutraDried Royalty | 100 | 118 | 122 | 254 | 327 | 357 | 366 | 270 |
| Intercompany Revenue Adjustment (1) | (100) | (118) | (122) | (254) | (327) | (357) | (366) | (270) |
| Revenues(2) | 3,630 | 4,519 | 4,172 | 6,779 | 7,355 | 7,806 | 8,773 | 10,075 |
| Revenues | 3,630 | 4,519 | 4,172 | 6,779 | 7,355 | 7,806 | 8,773 | 10,075 |

*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, non-recurring impairment charges and non-recurring restructuring costs. 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:

| *($ '000s)* | *Sep 30, 2017* | *Dec 31, 2017* | *Mar 31, 2018* | *Jun 30, 2018* | *Sep 30, 2018* | *Dec 31, 2018* | *Mar 31, 2019* | *Jun 30, 2019* |
|---|---|---|---|---|---|---|---|---|
| Net (loss) income after income tax | (1,060) | (397) | (519) | (104) | 75 | (15) | (224) | (1,322) |
| Amortization and depreciation | 483 | 483 | 436 | 495 | 564 | 578 | 492 | 359 |
| Stock-based compensation | 230 | 147 | 129 | 126 | 143 | 357 | 452 | 501 |
| Foreign exchange loss (gain) | 54 | 94 | (54) | (27) | (2) | (55) | 30 | 13 |
| Finance expense (income) | 15 | (12) | 12 | (42) | (18) | (18) | (30) | (55) |
| Income tax expense | - | - | - | - | 538 | 316 | 282 | 31 |
| Non-recurring impairment and restructuring costs | - | - | - | 865 | - | - | - | 612 |
| Adjusted EBITDA | (278) | 315 | 4 | 1,313 | 1,300 | 1,163 | 1,002 | 139 |

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 of 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.

## 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.

## Capital Structure and Outstanding Share Data

As of the date of this MD&A, the Company has 110,710,443 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.

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

| | **June 30, 2019** | | **August 28, 2019** | |
|---|---|---|---|---|
| | Number | Weighted average exercise price $ | Number | Weighted average exercise price $ |
| Common shares outstanding | 110,522,540 | | 110,713,443 | |
| Options | | | | |
| Outstanding | 5,243,667 | 1.32 | 5,233,667 | 1.32 |
| Exercisable | 2,506,100 | 1.13 | 2,507,766 | 1.14 |
| RSRs | | | | |
| Outstanding | 775,000 | n/a | 775,000 | n/a |
| Warrants | | | | |
| Investor warrants | 8,043,552 | 1.39 | 7,895,615 | 1.39 |
| Broker warrants | 68,643 | 1.05 | 67,777 | 1.05 |

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<br>President and Chief Executive Officer<br>Telephone (+1) 778 378 9616<br>bcharleton@enwave.net | Deborah Honig<br>Investor Relations<br>Telephone (+1) 647 203 8793<br>dhonig@enwave.net | Dan Henriques, CPA, CA<br>Chief Financial Officer<br>Telephone (+1) 604 835 5212<br>dhenriques@enwave.net |

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