Management Discussion and Analysis

Three months ended December 31, 2019

(expressed in thousands of Canadian dollars)

Dated: February 25, 2020

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

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE QUARTER ENDED DECEMBER 31, 2019

Date of this report: February 25, 2020

This Management’s Discussion and Analysis (“MD&A”) provides a review of EnWave Corporation’s (“EnWave”, “the Company”, “we”, “us” or “our”) financial performance, on a consolidated basis, for the three months ended December 31, 2019 relative to the three months ended December 31, 2018, and the financial position of the Company at December 31, 2019 relative to September 30, 2019. It should be read in conjunction with the EnWave’s unaudited condensed consolidated interim financial statements and accompanying notes for the three months ended December 31, 2019 (“Q1-2020”) and 2018 (“Q1-2019”), as well as the 2019 annual MD&A, the 2019 annual audited consolidated financial statements and accompanying notes, and 2019 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.

Company Overview

REV™ Technology

EnWave Corporation is a Vancouver-based applied technology company that licenses, builds and installs commercial-scale proprietary dehydration platforms for applications in the food, cannabis and pharmaceutical sectors for manufacturing companies. EnWave has entered into 38 royalty-bearing commercial licenses with related equipment sales in the propagation of its dehydration platforms.

EnWave's proprietary Radiant Energy Vacuum (“REV™”) dehydration technology applies microwave energy under vacuum to offer flexible, efficient, low temperature processing suitable for food products, cannabis and biomaterials. The Company currently has two primary commercial scale technologies, *nutra*REV® and *quanta*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 creating new or improved product opportunities, increasing throughputs and/or reducing processing costs. Management believes that REV™ technology has the ability to produce better quality products than air-drying, spray-drying or freeze-drying in many applications and market verticals. REV™ technology is also typically faster and more economical than freeze-drying.

The Company strives to grow revenues by securing multiple, diversified royalty streams through the licensing of its technology for specific product applications with a variety of global and local royalty partners. Each commercial license agreement stipulates for royalty payments 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 royalty partner's use of the technology to produce specific applications and processing to a limited geographic 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 collaborate closely with them to develop and commercialize products using REV™ technology and build demand for increased production capacity, which will lead to larger future royalty streams.

EnWave's dehydration technology has proven commerciality for several applications in multiple market verticals, including fruits and vegetables, dairy products, cannabis products, nutraceuticals, and pharmaceuticals. The Company is actively engaged in multiple, commercially focused, research and development projects to expand the number of viable REV™-dried products 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 State, USA. NutraDried manufactures and sells Moon Cheese®, an all-natural dried cheese snack produced using REV™ technology. NutraDried currently produces Moon Cheese® using two 100kW *nutra*REV® machines. NutraDried produces Moon Cheese® in cheddar, gouda, mozzarella, bacon cheddar, parmesan garlic and pepper jack flavours at its manufacturing facility located in Ferndale, Washington. Moon Cheese® is sold in over 25,000 retail locations across Canada and the United States. Notable retail points of distribution include Starbucks, Costco, Whole Foods, Sprouts, REI, Jewel Osco, Shop Rite, Raley's, QFC, Wegmans, King Soopers, HEB, Fresh Thyme, Publix, Target, Rite Aid, and CVS, among others.

NutraDried has demonstrated the ability for REV™ technology to operate reliably at scale for commercial operations. This operation began as a proof-of-concept for the Company as it showcased the capabilities of large-scale commercial REV™ machinery to current and potential royalty partners, but now has grown into a world-class branded snacking company. Furthermore, NutraDried's business success has established a precedent for analysis by dairy companies considering the commercialization of REV™ technology into their operations. The Company's strategy is to grow the NutraDried business through new points of retail distribution in new and existing channels, introducing new innovative product extensions into its portfolio, and by increasing production capacity when necessary. NutraDried will continue to demonstrate the commerciality of REV™ to potential royalty partners supporting further 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 its revenue. The royalty payment from NutraDried, a subsidiary of EnWave Canada, is eliminated from revenue in the condensed consolidated interim financial statements of the Company.

The quarterly royalty payments from NutraDried to EnWave were as follows:

($ '000s)	*Mar 31, 2018*	*Jun 30, 2018*	*Sep 30, 2018*	*Dec 31, 2018*	*Mar 31, 2019*	*Jun 30, 2019*	*Sep 30, 2019*	*Dec 31, 2019*
NutraDried Royalty(1)	122	254	327	357	366	270	837	208

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

Recent Developments

Appointment of New Independent Director

On February 12, 2020, the Company announced that it had appointed Mr. Patrick Turpin, the co-founder of Popchips, Inc. ("Popchips") and a veteran of the consumer packaged goods industry, to the Company's board of directors. The addition of Patrick Turpin to the Company's board will broaden and strengthen the skillset of the board to include a wealth of experience and leadership in the better-for-you segment of the snacking vertical, where NutraDried operates.

Canadian Cannabis Industry Licensing

The Canadian cannabis industry has experienced significant challenges over the past several months, including several major companies announcing reduced capital expansion and new strategies to lower costs and to reduce output to better match current levels of demand. EnWave seeks to partner with its licensees over the long-term and has worked to resolve these near-term challenges with the view of evolving each long-term royalty partnership. That said, we have been prudent in our cash collections across the sector to mitigate balance sheet risk and have not realized any losses or write-downs as a result of the industry conditions as of the date of this report.

On February 14, 2020, the Company announced a reduction to the number of REV™ machines that will be delivered to The Green Organic Dutchman ("TGOD") for its Valleyfield, Quebec facility. TGOD originally committed to the purchase of three 120kW REV™ processing lines to be delivered to Valleyfield. At the request of TGOD, due to its revised processing requirements and phasing of their Valleyfield facility buildout, the capacity of REV™ machinery to be delivered to TGOD has been reduced to a single 120kW REV™ machine with an Optional Support Equipment and Robotic Arm system. TGOD has fully paid EnWave for the first 120kW REV™ machine and a total of $3MM to EnWave for the two REV™ systems that will no longer be delivered following the agreed modification to the Purchase Agreement. The cash collected by EnWave related to the two REV™ systems that will not be taken by TGOD fully covers all costs incurred by the Company related to fabrication, including an acceptable margin. The Company did not incur any losses as a result of the change in scope of machine delivery. After releasing TGOD from its purchase obligation related to these two machines, EnWave now owns the two partially completed REV™ systems and will seek to redeploy them for new projects in the cannabis or food verticals.

As of the date of this report, the 60kW REV™ machine delivered to TGOD's Ancaster facility has been paid for in full, and the commissioning is planned for Spring of 2020. The 120kW machine that the Company is fabricating for TGOD's Valleyfield facility has also been paid for in full, but the Company cannot estimate when this machine will be commissioned for commercial use at this time.

In April 2019, the Company announced that it had signed a commercial license agreement with Aurora Cannabis Inc. ("Aurora") and that Aurora had purchased two 120kW REV™ systems for installation at its Aurora Sky and Aurora Sun facilities, respectively. The Company has made substantial progress in the fabrication of these units and the systems are expected to be installed for commercial use within fiscal 2020, starting with the first line at the already commercially operational Aurora Sky facility.

While the Canadian cannabis market and licensed producers have experienced challenges over the last several months, the global cannabis industry continues to make advancements. In light of this, the Company is also aggressively targeting international licensing opportunities for legalized applications in numerous countries. To-date, we have already signed commercial license agreements and sold REV™ machinery to cannabis companies operating in Switzerland, New Zealand and Australia.

NutraDried Capacity Expansion

NutraDried currently operates two 100kW nutraREV® processing lines at its Ferndale, Washington facility. As sales and distribution of Moon Cheese® potentially increases, the Company will need to add additional production capacity in order to meet demand. NutraDried's production outpaced sales in the first quarter of 2020, and this has afforded the Company the ability to build inventories and temporarily delay the need for expansion of its drying capacity. At the end of Q1, NutraDried had finished goods inventory of $6.9 million, which has mitigated the imminent REV™ equipment capacity constraints previously forecasted by the Company. With the additional inventory on-hand, paired with the existing two 100kW nutraREV® processing lines, the Company has temporarily delayed the capital expansion project until the current capacity becomes fully utilized. While NutraDried anticipates having sufficient capacity to meet near-term demand, the Company expects to be resuming the capital expansion project in fiscal 2020 to meet long-term demand for NutraDried's products. As at the date of this MD&A the Company has not made any formal capital commitments related to the capacity expansion project at NutraDried.

Joint Development Agreement with GEA Lyophil GmbH

On January 22, 2020, the Company signed a technology license and joint development agreement ("JDA") with GEA Lyophil GmbH ("GEA Group") a global manufacturer and marketer of freeze-dry units for the pharmaceutical and biotech industries. The collaboration will leverage EnWave's *freeze*REV® technology and intellectual property alongside GEA Group's deep expertise and intellectual property in the manufacturing of GMP-pharma equipment to scale-up and refine EnWave's GMP-pharma REV™ machinery. Under the terms of the JDA, EnWave and GEA Group have agreed to a series of development related milestones under a joint project, and, if met, will extend the term of the agreement into the commercial equipment manufacturing phase.

The integration of EnWave's proprietary *freeze*REV® pharmaceutical drying technology and GEA Group's industry-leading equipment design and capabilities will allow for GEA Group to manufacture, market and sell REV™ machinery globally in the pharmaceutical industry. If the scale-up is successful, GEA Group will pay EnWave a royalty from the sale of any future GMP-pharma REV™ machinery.

Overall Performance

For the first quarter of fiscal 2020, the Company had consolidated revenues of $8,609, compared to $7,806 in the same period in fiscal 2019, an increase of 10% or $803. The Company had a consolidated net loss of $1,426 in the first quarter of fiscal 2020, compared to a consolidated net loss of $15 for the first quarter of fiscal 2019, an increase of $1,411. During the first quarter of 2020, the Company's revenues increased slightly from the prior year due to higher machine sales revenues, which was offset by lower Moon Cheese® sales in the period. The Company reported negative adjusted EBITDA of $743 for the first quarter of 2020, compared to a positive adjusted EBITDA of $1,163 for the first quarter of 2019, a decrease of $1,906.

EnWave Canada reported revenues of $4,555 for the three months ended December 31, 2019, compared to $1,478 for the three months ended December 31, 2018, an increase of $3,077. EnWave Canada reported a segment loss of $790 for the three months ended December 31, 2019, compared to a loss of $1,161 for the three months ended December 31, 2018, a decrease of $371. The Company had eight large scale machines at Q1 2020 in production compared to two in Q1 2019, resulting in the increase to EnWave Canada's revenues.

NutraDried reported revenues of $4,054 for the three months ended December 31, 2019, compared to $6,328 for the three months ended December 31, 2018, a decrease of $2,274 or 36%. NutraDried reported a segment loss of $606 for the three months ended December 31, 2019, compared to segment income of $1,146 for the three months ended December 31, 2018, a decrease of $1,752. NutraDried had major distribution push in Q4 2019 into Costco for the Most Valuable Member Coupon ("MVM Coupon") promotion, where Moon Cheese® was temporarily stocked in all U.S. Costco stores. Costco had inventory in excess of planned levels at the conclusion of the MVM Coupon program, and as a result, did not order at the same levels as experienced in prior quarters. With that said, we have secured distribution with several new retailers within the retail grocery channel and the velocities continue to improve in this important strategic channel. While sales of Moon Cheese® decreased as a result of these factors in Q1 2020, the Company continues to anticipate revenue growth in this segment of the business for full year fiscal 2020.

Commercial Licensing and Partnership Development

License and Equipment Purchase Agreement with Pacifico Snacks

On January 23, 2020, EnWave signed a royalty-bearing commercial license agreement with Pacifico Snacks S.A.S. ("Pacifico Snacks") providing Pacifico Snacks with the exclusive rights to produce certain premium fruit snack products in Columbia. Pacifico Snacks purchased a 10kW REV™ machine to initiate commercial production for distribution to specialty retailers in the U.S. and beyond.

License Agreement and Equipment Purchase Agreement with Ballantyne Dairy

On January 8, 2020, EnWave signed a royalty-bearing commercial license agreement and equipment purchase agreement with KL Ballantyne Pty Ltd. ("Ballantyne Dairy"), a leading Australian dairy producer. Ballantyne Dairy purchased a 10kW REV™ machine to initiate commercial production.

Installation of 3rd Large-Scale REV™ Machine at Milne MicroDried

In January 2020, the Company completed the installation and commissioning of the third 120kW REV™ processing line for Milne MicroDried, its royalty partner in Idaho, U.S. Milne MicroDried produces a variety of premium quality dried fruit and vegetable products using EnWave's technology, primarily for B2B sales, and pays EnWave a royalty based on a percentage of revenue generated from REV™ products. With three large-scale REV™ machines installed, Milne MicroDried now has the largest installed capacity of any of EnWave's royalty partners.

Equipment Purchase Agreement with Fresh Business Peru

On December 31, 2019, EnWave signed an equipment purchase agreement with Fresh Business Peru for the delivery of a 100kW nutraREV® processing line. This is in addition to a 10kW REV™ machine previously purchased by Fresh Business. Fresh Business sources premium nutritious fruit and vegetable raw materials to be dried using the REV™ technology for export to international markets. The scale-up of Fresh Business to a 100kW nutraREV® marks the first large-scale REV™ machinery to be installed in South America.

License and Equipment Purchase Agreement with Responsible Foods

On December 18, 2019, EnWave signed a royalty-bearing commercial license agreement and equipment purchase agreement with Responsible Foods to produce shelf-stable snacks using premium Icelandic raw materials. Responsible Foods is an innovative snack food company focused on producing a variety of unique and healthy food products including dairy, seafood, meat, microalgae, and seaweed in Iceland.

License and Equipment Purchase Agreement with Helius Therapeutics

On December 11, 2019, EnWave signed a royalty-bearing commercial license agreement and equipment purchase agreement with Helius Therapeutics Ltd. ("Helius"). Helius is the largest licensed medical cannabis company in New Zealand, with a state-of-the-art, large-scale indoor biotechnology facility located in Auckland. Helius has purchased a 10kW REV™ machine to initiate commercial processing and was granted the exclusive rights to the use of REV™ technology for dehydration of cannabis in New Zealand.

Sub-License Agreement and Equipment Purchase Agreement with Cann Group

On October 22, 2019, the Company and Aurora signed a royalty-bearing sublicense agreement with Cann Group Ltd. ("Cann Group") in Australia. Cann Group is Australia's first Medical Cannabis Cultivation licensee. Cann Group purchased a 10kW REV™ machine to initiate commercial processing of cannabis at its facility in Australia. The 10kW REV™ will be installed at Cann Group's facility in early 2020.

Royalty Partner Pipeline

EnWave has prospective royalty partners evaluating the REV™ technology under Technology Evaluation and License Option Agreements ("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 research and development ("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 several 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 many recent licenses signed where a prospective licensee has bypassed the TELOA phase and entered directly into a commercial license agreement and purchased REV™ machinery. This is often the case when the product application has been previously proven commercially in another geography, or when the value proposition and business cases are compelling enough for the prospect to enter directly into commercial production.

EnWave has a dedicated sales and marketing team focussed on growing the number of commercial license agreements and securing new TELOAs. Part of this strategy includes partnering with external sales representatives, including Correns Corporation in Japan, universities and research and development centers, such as Cornell University in the U.S. and Moore Park Technology Park in Ireland, to showcase the capabilities of REV™ technology. In recent months the Company has expanded its sales team and increased resources as part of the strategy to accelerate the adoption of REV™ into many proven verticals, including fruits, vegetables, dairy and cannabis, among others.

Machine Fabrication and Installation Pipeline:

The table below summarizes the current fabrication and commissioning pipeline of machines that are 60kW or greater purchased by EnWave licensees under Equipment Purchase Agreements as of the date of this MD&A:

Licensee	Machine Capacity	Licensed Product	Territory
The Green Organic Dutchman	60kW	Cannabis	Canada
The Green Organic Dutchman	120kW	Cannabis	Canada
Aurora	120kW	Cannabis	Canada
Aurora	120kW	Cannabis	Canada

Aurora (1)	60kW	Cannabis	South America
Aurora (1)	60kW	Cannabis	Australia
Fresh Business	100kW	Fruits and vegetables	Peru

Note:

(1) The Company has received a preliminary non-refundable deposit from the Royalty Partner for the machine but has not commenced fabrication of the machine. The deposit was paid to reserve the exclusivity of the Commercial License Agreement. EnWave will begin fabrication of the machine when the remainder of the down-payment is paid by the Royalty Partner. If the Royalty Partner fails to pay the deposit before the prescribed timeframe then the Commercial License Agreement can be converted to non-exclusive.

Additionally, as of the date of this MD&A, EnWave is in the process of fabricating or installing seven 10kW REV machines for various licensees across the globe, equating to approximately $1.4 MM in unrecognized revenue.

NutraDried Food Company

In Q1 2020, NutraDried completed the re-branding and re-launch of the new-and-improved Moon Cheese® brand. This included the launch of new packaging that was designed using a world-class consumer packaged goods marketing agency, the release of two new flavours: bacon cheddar and garlic and parmesan, the launch of a new single-serve 1oz package size, and a brand new Moon Cheese® website (www.mooncheese.com). The re-launch was focussed around making the Moon Cheese® brand more appealing to our target demographic of consumers, creating better awareness of the superior macro-nutritional attributes of the product relative to other substitutable products and having better shelf-appeal. The re-launch has also been supported by a major winter marketing campaign.

NutraDried has made a number of investments in the brand and internal sales infrastructure that are part of the strategy to increase Moon Cheese® revenues and grow the number of points of distribution. The launch of the 1oz package size has been designed for distribution into the convenience store channel, food service channel and checkout lanes in the grocery channel. The Company has expanded its internal sales team to now comprise four full-time, very experienced professionals. We also recently signed an agreement with a new exclusive online sales representative to grow the online sales of the product through Amazon. In the fall of 2019, we hired a Chief Marketing Officer, who is executing a marketing strategy to drive trial and velocity where we have secured distribution both online and in brick and mortar.

Quarterly sales of Moon Cheese® decreased in Q1 2020 compared to the quarterly sales of the product in fiscal year 2019. The decrease in product sales was primarily due to Costco over-stocking the product as part of the Q4 2019 MVM Coupon Program. The excess inventory purchased in Q4 2019 was on-shelf through Q1 2020 and into early Q2 2020, and the result was lower sales to Costco in the same period. Club distribution remains an important part of our distribution plan and the Company anticipates securing additional rotations with Costco in the second half of fiscal year 2020 and is implementing a number of strategies as part of this plan.

NutraDried's expanded sales team is focussed on securing new distribution in the retail/grocery channel and has already secured a number of 'wins' with new retailers listing Moon Cheese®. We have secured new distribution with several divisions of Albertson's, HEB, Shoprite, Fresh Thyme and Raley's, to name a few. The rate at which new retailers are listing the product is growing and the sales velocities achieved in already secured points of distribution are exceeding retailer requirements for the category. The Company expects to continue to grow its national distribution presence in the U.S. and is targeting numerous new retailers as part of its strategy.

NutraDried's objective is to continue to grow its core distribution in the U.S. mainstream retail grocery channel by securing new national retail accounts and smaller regional accounts, and by penetrating new channels with the new 1oz package size, including the convenience store channel and food service channels.

Summarized Quarterly Results

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

The following is a selected summary of quarterly results for the eight most recently completed quarters to December 31, 2019 reported in Canadian dollars, the Company's presentation currency:

	2018			2019				2020
($ '000s)	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*
Revenues	4,172	6,779	7,355	7,806	8,773	10,075	16,188	8,609
Direct costs	(2,877)	(3,848)	(4,097)	(4,769)	(5,653)	(7,217)	(11,597)	(5,413)
Gross profit	1,295	2,931	3,258	3,037	3,120	2,858	4,591	3,196
Expenses	(1,814)	(3,035)	(2,645)	(2,736)	(3,062)	(4,149)	(4,756)	(4,777)
Income tax (expense) recovery	-	-	(538)	(316)	(282)	(31)	(260)	155
Net (loss) income after income tax	(519)	(104)	75	(15)	(224)	(1,322)	(425)	(1,426)
Adjusted EBITDA(1)	4	1,313	1,300	1,163	1,002	139	864	(743)
Loss per share – Basic and diluted	(0.01)	(0.01)	0.00	(0.00)	(0.00)	(0.01)	(0.01)	(0.01)
Total assets	20,108	20,958	22,162	23,781	28,114	40,316	43,250	40,139
Total liabilities	3,692	4,190	5,240	5,348	8,919	9,447	12,306	10,075

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

Revenues for Q1 2020 were lower than Q3 and Q4 2019 due to lower Moon Cheese® sales in the period relative to previous quarters. Revenues for Q4 2019 were substantially higher than other quarters due to the Company's participation in Costco's Q4 MVM Coupon program where Moon Cheese® was featured in all of Costco's U.S. stores for a 4-week promotion. For Q1 2020, revenues were consistent with Q1 and Q2 2019. Gross margin in Q1 and Q2 of 2019 were higher than for Q4 2019 and Q1 of 2020 due to lower raw cheese prices in the U.S. paired with less trade spending related to promotions and discounts.

For Q1 2020 gross margin improved due to additional revenue received by EnWave Canada in connection to the cancellation of two large-scale machine orders. The Company's expenses increased in Q3 2019 and remained consistent for Q3 and Q4 2019 and into Q1 2020. The increase to expenses is attributable to expanding the sales and marketing capabilities at NutraDried, as well as marketing costs associated with the relaunch of the Moon Cheese® brand. The Adjusted EBITDA(1) was positive quarterly throughout 2019, and was negative for Q1 2020 due to lower NutraDried sales and higher fixed costs related to sales and marketing at 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 periods ended December 31, 2019 and 2018,and should be read in conjunction with those financial statements.

($ '000s)	**Three months ended December 31,**		
	2019	2018	Change **%**
Revenues	**8,609**	7,806	10%
Direct costs	**5,413**	4,769	14%
Gross margin	**3,196**	3,037	5%
Operating Expenses			
General and administration	**1,758**	998	76%
Sales and marketing	**1,943**	976	99%
Research and development	**535**	341	57%
	4,236	2,315	83%
Net loss for the period after taxes	**(1,426)**	(15)	
Loss per share – basic and diluted	**(0.01)**	(0.00)	

Discussion of Operations

Revenue

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

	Three months ended December 31,	
($ '000s)	**2019**	**2018**
Revenue	8,609	7,806

Revenue for the three months ended December 31, 2019 was $8,609 compared to $7,806 for the three months ended December 31, 2018, an increase of $803. The increase in revenue for the three months ended December 31, 2019 relative to December 31, 2018 is due to higher purchase order volume for machinery in the first quarter of 2020 relative to 2019, which was partially offset by lower Moon Cheese® sales.

Quarterly Revenue		**2018**			**2019**			**2020**
($ '000s)	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*
EnWave Canada	1,768	1,610	823	1,478	2,009	5,075	4,286	4,555
NutraDried	2,404	5,169	6,532	6,328	6,764	5,000	11,902	4,054
Total	4,172	6,779	7,355	7,806	8,773	10,075	16,188	8,609

Revenues from EnWave Canada were $4,555 for the three months ended December 31, 2019, compared to $1,478 for the three months ended December 31, 2018, an increase of $3,077. For the three months ended December 31, 2019, revenue was generated from eight large-scale machine purchase contracts. The increase in EnWave Canada's revenues is attributable to an increase in volume of equipment sales. EnWave Canada reported royalties of $402 for the three months ended December 31, 2019, compared to $251 for the three months ended December 31, 2018, an increase of $151. The Company's royalties experience some seasonality due to the timing of annual minimum royalty payments required under its commercial license agreements in order to retain licensing exclusivity. These additional royalty payments are due at the end of each calendar year.

Revenues from NutraDried were $4,054 for the three months ended December 31, 2019, compared to $6,328 for the three months ended December 31, 2018, a decrease of $2,274. The decrease in revenues for the first quarter was due to decreased sales to Costco. NutraDried experiences variability in order frequency and volumes with significant customers, which can affect the timing of product sales recorded as revenue.

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.

Direct costs for the three months ended December 31, 2019 were $5,413, compared to $4,769 for the three months ended December 31, 2018, an increase of $644. The increase to direct costs was attributed to EnWave Canada's increase in direct materials and overhead costs associated with machine fabrication. Direct costs as a percentage of revenues for the three months ended December 31, 2019 were 63% compared to 61% for the three months ended December 31, 2018.

	Three months ended December 31,	
($ '000s)	**2019**	**2018**
Direct costs	5,413	4,769
% of revenue	63%	61%

Gross margin for the three months ended December 31, 2019 was 37%, compared to 39% for the three months ended December 31, 2018, a reduction of 2%. This increase to EnWave Canada's gross margin was offset by a change in the sales mix with more revenue generated from machine sales contracts, which is at a lower margin compared to product sales.

During the three months ended December 31, 2019, EnWave Canada yielded a ratio of direct costs to revenue of 69%, compared to 89% during the three months ended December 31, 2018. The increase in gross margin is due to additional revenue recognized in the period related to additional payments received for large-scale machine orders that were cancelled by the royalty partner (refer to the discussion under *Recent Developments*). EnWave Canada reduced manufacturing headcount by four full-time employees in January 2020 as a measure to reduce the fixed overhead costs associated with machine fabrication.

The ratio of direct costs to revenue was 56% for NutraDried for the three months ended December 31, 2019, compared to 55% in the three months ended December 31, 2018. The ratio of direct costs to revenue has remained fairly consistent relative to the comparative period. Direct costs of NutraDried are highly dependent on the commodity pricing of raw cheese as the primary raw material used in production. Cheese prices increased in the fourth quarter of 2019 and the first quarter of 2020, and the impact of higher cheese pricing will have an impact on gross margin for product sales. We monitor the impact of commodity price fluctuations and may employ hedging tactics where appropriate to mitigate risk.

General and administration

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

G&A expenses for the three months ended December 31, 2019 were $1,758 compared to $998 for the three months ended December 31, 2018, an increase of $760. The increase in G&A expenses for the year was largely driven by growth in the administrative functions of NutraDried to keep pace with the growth in sales. G&A expenses also increased at the EnWave Canada level due to additional costs related to the recruitment of two strategic positions, legal fees associated with commercial license development and additional investor relations costs.

	Three months ended December 31,	
($ '000s)	**2019**	**2018**
General and administration	1,758	998
% of revenue	20%	13%

Sales and marketing

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

S&M expenses for the three months ended December 31, 2019 were $1,943 compared to $976 for the three months ended December 31, 2018, an increase of $967. The increase to S&M expenses in the quarter was driven primarily by the expansion of NutraDried's internal sales and marketing team as well as additional marketing campaigns tied to the relaunch of the Moon Cheese® brand. The increase in S&M expenses are part of the Company's strategy to invest in NutraDried's sales infrastructure and developing its brand. It is expected that these investments will contribute to the sustainable, long-term growth of NutraDried.

	Three months ended December 31,	
($ '000s)	**2019**	**2018**
Sales and marketing	1,943	976
% of revenue	23%	13%

Research and development

Research and development expenses include the salaries of the pilot plant technicians and scientists, global patent filing and maintenance costs, laboratory and pilot plant facility costs, and R&D staff travel expenses. R&D expenses also include 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 December 31,	
($ '000s)	**2019**	**2018**
Research and development	535	341
% of revenue	6%	4%

R&D expenses for the three months ended December 31, 2019 were $535 compared to $341 for the three months ended December 31, 2018, an increase of $194. R&D expenses increased for the three months ended December 31, 2019 compared to the three months ended December 31, 2018 due to the filing of additional patents and patent maintenance fees related to the Company's intellectual property. The Company continues to make R&D investments into new intellectual property through patent filings and maintenance costs and maintains an R&D team of technology experts to support new product development with current and prospective partners using the EnWave technology.

Stock-based compensation

Stock-based compensation expense was $468 for the three months ended December 31, 2019, compared to $357 for the three months ended December 31, 2018. The increase to stock-based compensation expense was due to the vesting of stock options and RSRs granted during previous quarters.

	Three months ended December 31,	
($ '000s)	**2019**	**2018**
Stock-based compensation	468	357

Amortization of intangible assets

Amortization of intangible assets for the three months ended December 31, 2019 was $62 compared to $137 for the three months ended December 31, 2018. The decrease in amortization expense is due to certain intangible assets becoming fully amortized during the period.

	Three months ended December 31,	
($ '000s)	**2019**	**2018**
Amortization of intangible assets	62	137

Income taxes

For the three months ended December 31, 2019, the Company reported an income tax recovery of $155, compared to an income tax expense of $316 for the three months ended December 31, 2018. The reduction in income tax expense was due to the lower net income from NutraDried. The Company's current and deferred tax expenses are solely related to NutraDried's U.S. sourced income.

	Three months ended December 31,	
($ '000s)	**2019**	**2018**
Current income tax expense	11	304
Deferred income tax (recovery) expense	(166)	12
Income tax (recovery) expense	(155)	316

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

Liquidity and Capital Resources

Working capital

The components of the Company's working capital on December 31, 2019 and September 30, 2019 are:

($ '000s)	**December 31, 2019**	September 30, 2019
Current assets		
Cash and cash equivalents	**16,537**	18,665
Restricted cash	**250**	250
Trade receivables	**4,568**	10,329
Due from customers on contract	**1,299**	1,557
Inventory	**9,915**	5,986
Prepaids and other receivables	**888**	942
Income taxes receivable	**199**	98
	33,656	37,827
Current liabilities		
Short term borrowings	**649**	-
Trade and other payables	**4,464**	8,791
Amounts due to related parties	**-**	44
Customer deposits and deferred revenue	**2,934**	2,768
Current portion of lease liabilities	**408**	-
Current portion of other liability	**108**	108
	8,563	11,711
Working capital	**25,093**	26,116

As at December 31, 2019, the Company had working capital of $25,093, compared to $26,116 as at September 30, 2019. As at December 31, 2019 the cash and cash equivalents balance is $16,537 compared to $18,665 as at September 30, 2019, a decrease of $2,128. The change in cash and cash equivalents is primarily due to the increase to the Company's inventory, offset by the reduced trade and other payables. The Company had net cash outflows from operating activities of $2,796 for the three months ended December 31, 2019.

EnWave Canada had trade receivables of $2,933 as at December 31, 2019, compared to $1,356 as at September 30, 2019, and NutraDried had trade receivables of $1,635 as at December 31, 2019 compared to $8,973 as at September 30, 2019. The increase in EnWave Canada's trade receivables relates to invoicing for deposits and performance milestones completed on equipment purchase contracts. The large decrease of NutraDried's trade receivables relates to collections on account for amounts owing to the Company as at September 30, 2019. As at December 31, 2019 the Company has recorded a provision for expected credit losses of $58 (2018 - $58).

Due from customers on contract to EnWave Canada as at December 31, 2019 was $1,299 compared to $1,557 as at September 30, 2019. The amounts due from customers on contract are billed and collected when project specific milestones are reached on each project.

EnWave Canada had inventory of $2,578 as at December 31, 2019 compared to inventory of $2,198 at September 30, 2019. NutraDried had inventory of $7,337 as at December 31, 2019 compared to $3,788 as at September 30, 2019, an increase of $3,549. The increase to NutraDried's inventory was due to reduced sales in the period while maintaining production levels to optimize plant efficiencies.

Trade and other payables as at December 31, 2019 includes $1,020 of trade payables and accrued liabilities related to EnWave Canada, compared to $2,312 as at September 30, 2019, the decrease is associated with the timing of the materials purchases. Trade and other payables for NutraDried were $3,444 as at December 31, 2019, compared to $6,479 as at September 30, 2019 with the decrease largely associated with the payment of trade and promotional expenses that were accrued at September 30, 2019.

NutraDried had short-term borrowings of $649 as at December 31, 2019 that relate to draws on the line of credit facility, compared to $nil as at September 30, 2019. NutraDried maintains a line of credit facility to assist with short-term, temporary working capital needs.

Financing and liquidity

Cash and cash equivalents were $16,537 as at December 31, 2019 compared to $18,665 as at September 30, 2019. As at December 31, 2019, we had net working capital of $25,093 compared to $26,116 as at September 30, 2019. The change in cash consists of:

	Three months ending December 31,	
($ '000s)	**2019**	**2018**
Cash used in operating activities	**(2,796)**	(113)
Cash used in investing activities	**(133)**	(663)
Cash generated from financing activities	**815**	836

We believe that our current working capital surplus of $25,093 is sufficient to meet our financing needs and planned growth in the near term, and that we anticipate to 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 has a demand line of credit with a Washington State bank with a credit limit of US$500 that can be drawn upon to meet short-term liquidity needs. NutraDried maintains the line of credit facility to fulfil short-term, temporary working capital requirements.

The Company is working to increasingly fund operations through cash flows generated from machine sales and royalties from the commercialization of *nutra*REV® and *quanta*REV® technologies. The Company is not exposed to any externally imposed capital requirements. While we plan to fund our operations through sales of REV™ machinery and from Moon Cheese® revenue, there can be no assurance that sufficient revenue will be generated to meet our cash needs.

The ability to achieve our targeted future operating results is based on a number of assumptions which involve significant judgements and estimates, which cannot be assured. If we are unable to achieve our targeted operating results, our liquidity could be adversely impacted. Our operating results could adversely affect our ability to raise additional capital to fund our operations and there is no assurance that debt or equity financing will be available in sufficient amount, on acceptable terms, or in a timely basis.

Capital expenditures

During the three months ended December 31, 2019, we incurred capital expenditures of $218 related to plant and equipment. NutraDried accounted for $193 of the capital expenditures for the period with minor additions to production and packaging equipment. EnWave accounted for $25 for manufacturing and assembly equipment.

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. Refer to the discussion under *Recent Developments* for an update on the timing of the capacity expansion capital project at NutraDried.

Contractual obligations

In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments. The following table provides information about certain of the Company's significant contractual obligations as at December 31, 2019:

($ '000s)	**Due within 1 year**	**Due between 1 - 3 years**	**Due after 3 years**	**Total**
Financial liabilities				
Trade and other payables	4,464	-	-	4,464
Short-term borrowings	649	-	-	649
Lease liabilities	408	787	331	1,526
Other liability	108	215	-	323
Total	**5,629**	**1,002**	**331**	**6,962**

Transactions with Related Parties

During the three months ended December 31, 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 months ended December 31, 2019 and 2018:

($ '000s)	**Three months ended December 31,**	
	2019	**2018**
	$	**$**
Directors' fees	**40**	23
Stock-based compensation	**74**	221
	114	244

Compensation of key management personnel

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

($ '000s)	**Three months ended December 31,**	
	2019	**2018**
	$	**$**
Salaries, bonuses and short-term employee benefits	**755**	531
Stock-based compensation	**242**	221
	997	752

Critical Accounting Estimates

The preparation of condensed consolidated interim 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.

Other than the estimates used in the adoption of IFRS 16, *Leases*, (refer to Note 3 in the condensed consolidated interim consolidated financial statements for the three months ended December 31, 2019), there have been no changes in the Company's critical accounting estimates during the three months ended December 31, 2019. For more information on the Company's accounting policies and key estimates, refer to the note disclosures in the annual consolidated financial statements and MD&A as at and for the year ended September 30, 2019.

New accounting standards adopted during the period

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

IFRS 16 - Leases

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

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

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

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

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

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

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

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

The following table summarized the adjustments to opening balances resulting from the initial adoption of IFRS 16 on the opening consolidated balance sheet on October 1, 2019, with the effect of transition being recognized directly to retained deficit:

($ '000s)	**As previously reported under IAS 17 $**	**IFRS 16 transition adjustments $**	**As restated under IFRS 16 $**
Right of use assets	-	1,569	1,569
Lease liabilities	-	1,622	1,622
Retained deficit	58,563	52	58,615

As a result of adopting IFRS 16, the Company's lease recognition accounting policy is described below:

Leases

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

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

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

Lease accounting

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

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

The right-of-use asset is depreciated on a straight-line basis over the lease term. The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, our incremental borrowing rate. The Company uses the relevant incremental borrowing rate as the rate implicit in our leases cannot be readily determined.

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

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

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

Financial Instruments Risk

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

Credit risk

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

The Company provides credit to its customers in the normal course of business and, as such, has exposure to credit risk in relation to the collection of trade receivables and due from customers on contract. Prior to issuing credit, management reviews the customer, taking into account its financial position, historical experience, and other factors. The Company minimizes its credit risk associated with trade receivables and due from customers on contract by maintaining ongoing close contact with customers and by reviewing individual account balances, and proactively following up on overdue amounts. The Company maintains a provision for credit losses relating to specific losses estimated on individual exposures. As at December 31, 2019, the Company has recorded a $58 (September 30, 2019 - $58) provision for expected credit losses.

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

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

The following table provides information regarding the aging of receivables as at December 31, 2019:

	Neither past due nor impaired	**Past due but not impaired**		
($ '000s)	**0 – 30 days**	**31 – 90 days**	**91 – 365 days**	**365 + days**
Trade receivables	3,050	1,439	79	-
Due from customers on contract	1,299	-	-	-
Indirect taxes receivable	51	-	-	-
Total	4,400	1,439	79	-

Liquidity risk

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

The Company manages liquidity risk through ongoing management and forecasting of cash flows, budgeting, and equity financings. Cash flow forecasting is performed to monitor cash requirements and to manage capital management decisions. Such forecasting takes into account current and potential customers, contractual obligations and the Company's technology development and commercialization expectations. The Company's investment policy is to invest its cash in highly liquid short-term interest-bearing investments with varying maturities selected with regards to the expected timing of expenditures from continuing operations.

The Company attempts to ensure that sufficient funds are available to meet its operating requirements, after taking into account existing cash. The Company manages liquidity risk through the management of its capital structure and financial leverage. As at December 31, 2019, the Company had cash and cash equivalents of $16,537 to settle current liabilities of $8,563.

Financial assets maturity table:

($ '000s)	**0 – 30 days**	**31 – 90 days**	**91 – 365 days**	**365 + days**
Cash and cash equivalents and restricted cash	16,537	-	250	-
Trade receivables	4,391	98	79	-
Due from customers on contract	-	1,082	217	-
Income taxes receivable	199	-	-	-
Total	21,127	1,180	546	-

Financial liabilities maturity table:

($ '000s)	**0 – 30 days**	**31 – 90 days**	**91 – 365 days**	**365 + days**
Short-term borrowings	649	-	-	-
Trade and other payables	4,431	33	-	-
Lease liabilities	34	66	308	1,118
Other liability	26	27	55	215
Total	5,140	126	363	1,333

Market risk

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

Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest risk from the interest rate impact on cash and cash equivalents, restricted cash, and short-term borrowings. The Company earns interest on deposits based on current market interest rates, which during the three months ended December 31, 2019 ranged from 2.00% to 2.30% (2018 - 1.35% to 2.20%). A 1% change in interest rates would affect the results of operations by approximately $35 (2018 - $15).

Foreign exchange risk

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

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

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

A significant change in the currency exchange rate of the Canadian dollar relative to the US dollar could have an effect on the Company's results of operations. As at December 31, 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 when appropriate to minimize exposure to foreign currencies when appropriate. As at December 31, 2019, and September 30, 2019, the Company held no foreign exchange contracts. The fair values of the foreign exchange derivatives are recurring measurements and are determined whenever possible based on observable market data. If observable market data on the financial derivatives is not available, the Company uses observable spot and forward foreign exchange rates to estimate their fair values.

A change in the value of the Canadian dollar by 10% relative to foreign currencies the Company is exposed to would have affected the Company's loss for the three months ended December 31, 2019 and 2018 as follows:

($ '000s)	**2019 $**	**2018 $**
US dollar	113	103

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 interim 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 condensed consolidated interim financial statements:

($ '000s)	*Mar 31, 2018*	*Jun 30, 2018*	*Sep 30, 2018*	*Dec 31, 2018*	*Mar 31, 2019*	*Jun 30, 2019*	*Sep 30, 2019*	*Dec 31, 2019*
NutraDried Royalty	122	254	327	357	366	270	837	208
Intercompany revenue adjustment(1)	(122)	(254)	(327)	(357)	(366)	(270)	(837)	(208)
Revenues(2)	4,172	6,779	7,355	7,806	8,773	10,075	16,188	8,609
Revenues	4,172	6,779	7,355	7,806	8,773	10,075	16,188	8,609

Notes:

(1) Adjustment to eliminate intercompany revenue from the condensed consolidated interim financial statements.

(2) Revenues as reported in the Company's condensed consolidated interim statements of loss for the period.

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

On October 1, 2019, the Company adopted IFRS 16, *Leases* (refer to *New accounting standards adopted during the period*). The adoption of IFRS 16 has resulted in the replacement of rent expense previously recorded in direct costs and general and administration expenses with depreciation expense of the right-of-use assets and higher finance costs related to the interest expense of the corresponding lease liabilities, which impacts the calculation of Adjusted EBITDA. The Company has not restated its prior year results.

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

($ '000s)	*Mar 31, 2018*	*Jun 30, 2018*	*Sep 30, 2018*	*Dec 31, 2018*	*Mar 31, 2019*	*Jun 30, 2019*	*Sep 30, 2019*	*Dec 31, 2019*
Net (loss) income after income tax	(519)	(104)	75	(15)	(224)	(1,322)	(425)	(1,426)
Amortization and depreciation	436	495	564	578	492	359	591	359
Stock based compensation	129	126	143	357	452	501	511	468
Foreign exchange (gain) loss	(54)	(27)	(2)	(55)	30	13	3	45
Finance expense (income)	12	(42)	(18)	(18)	(30)	(55)	(76)	(34)
Income tax expense (recovery)	-	-	538	316	282	31	260	(155)
Non-recurring impairment and restructuring charges	-	865	-	-	-	612	-	-
Adjusted EBITDA	4	1,313	1,300	1,163	1,002	139	864	(743)

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® and *quanta*REV® technologies in the cannabis, pharmaceutical 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 cannabis and pharmaceutical industries will be subject to regulatory approval by a number of government entities and legal systems. Technology development within this regulatory and legal framework may take a number of years and may involve substantial expenditures that vary for each jurisdiction. Any delays in obtaining regulatory and/or legal 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 business expansion, 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 the Company's 2019 Annual Information Form. 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; EnWave's *freeze*REV® and *powder*REV® technology platforms may not meet customer specifications or Good Manufacturing Practices standards; 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 on 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 Starbucks and/or Costco as customer(s) of NutraDried; produce recalls or other food safety issues and regulatory actions could arise; 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; unfavourable legal environments for the deployment of REV™ machinery for cannabis processing in certain jurisdictions; deficiencies in accounting policies or internal controls and procedures over financial reporting; insufficiency of insurance; unavailability of certain tax credits; and unexpected tax liabilities.

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

Off-balance Sheet Arrangements

There are no off-balance sheet arrangements.

Capital Structure and Outstanding Share Data

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

	December 31, 2019		**February 25, 2020**	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Common shares outstanding	111,108,505	N/A	111,219,755	N/A
Options				
Outstanding	6,395,667	1.49	6,262,334	1.49
Exercisable	3,434,799	1.24	3,353,133	1.24
RSRs				
Outstanding	745,000	N/A	745,000	N/A
Warrants				
Investor warrants	7,805,452	1.39	7,774,202	1.39

As of the date of this MD&A, the Company has 111,219,755 common shares issued and outstanding. We maintain a Stock Option Plan (the "Option Plan") that enables us to grant options to directors, officers, employees and consultants. We maintain a Restricted Share Rights Plan (the "RSR Plan") that enables us to grant RSRs to directors, officers, employees and consultants. The Option Plan and RSR Plan permits the granting of compensation securities up to an aggregate maximum of 10% of our issued and outstanding common shares from time to time on a non-diluted basis, and the maximum number of RSRs granted thereunder is further limited to 1,000,000.

Other MD&A Requirements

Information pursuant to National Instrument 51-102.

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

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

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

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
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