Management Discussion and Analysis

Three months ended December 31, 2020

(expressed in thousands of Canadian dollars)

Dated: February 25, 2021

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

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE QUARTER ENDED DECEMBER 31, 2020

Date of this report: <u>February 25, 2021</u>

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, 2020 relative to the three months ended December 31, 2019, and the financial position of the Company at December 31, 2020 relative to September 30, 2020. 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, 2020 ("Q1-2021") and 2019 ("Q1-2020"), as well as the 2020 annual MD&A, the 2020 annual audited consolidated financial statements and accompanying notes, and 2020 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 judgements and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. In addition, in preparing the financial information we must interpret the requirements described above, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from the present judgements and estimates.

Company Overview

Radiant Energy Vacuum ("REV^{TM}") Technology

EnWave Corporation is an applied dehydration technology company that licenses its intellectual property and manufactures commercial-scale proprietary dehydration equipment for applications in the food, cannabis and pharmaceutical sectors. EnWave has entered into **41 royalty-bearing commercial licenses** with and sold REV™ equipment to a diverse portfolio of companies operating throughout 20 different countries on five continents. The Company has also started the build-out of a toll manufacturing operation in Canada to be branded as REVworx™ in order to accelerate the commercialisation of consumer-packaged goods ("CPG") made with EnWave's patented technology.

REV™ dehydration technology applies microwave energy under vacuum to offer flexible, efficient, low temperature drying suitable for food products, cannabis, biomaterials and pharmaceutical ingredients. The Company currently has two primary commercial scale technologies, *nutra*REV®, a drum-based system, and *quanta*REV®, a tray-based system. The Company has also developed *freeze*REV®, a pilot-scale technology for pharmaceutical applications, and has entered into a Joint Development Agreement with GEA Lyophil GmbH, a major pharmaceutical equipment manufacturer, to jointly commercialize the pharmaceutical drying technology.

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 can produce products with better quality than air-drying, spray-drying and freeze-drying. REV™ technology is also typically faster and more economical than freeze-drying.

EnWave's core business model is to secure multiple, diversified royalty streams through the licensing of its technology. As part of this strategy, EnWave has four primary revenue streams:

1. **Equipment Sales.** EnWave manufactures and sells REV™ equipment built at its fabrication facility in Delta, British Columbia. The Company offers machinery in a variety of sizes, from 10kW batch units through to 120kW large-scale, continuous processing lines.
2. **Royalties and Licensing Fees.** The Company enters royalty-bearing commercial license agreements with companies that utilize REV™ equipment for commercial production. Each license grants the royalty partner access to EnWave's intellectual property portfolio comprising the Company's patents, know-how and trade secrets. The commercial license agreements stipulate royalty payments to be made on a quarterly basis based on a percentage of sales generated or units produced from the use of the REV™ technology. The licenses also restrict the royalty partner's commercial use of the technology to specific products within a limited geographic territory.
3. **Equipment Rentals.** EnWave rents pilot-scale 10kW units to companies evaluating the Company's patented technology for product and process development purposes. The rental terms are typically less than a year in duration and the objective is to allow prospective royalty partners to develop products using REV™ technology prior to entering into a license agreement. Many companies often purchase the machine supplied to them during the evaluation period to initiate royalty-bearing commercial production.
4. **Toll Manufacturing.** The Company is launching a toll manufacturing division called REVworx™ in the Spring of 2021 to accelerate the commercialization of more food products produced using REV™ technology. The toll manufacturing operation will utilize both pilot-scale and large-scale REV™ equipment and the Company intends to utilize the installed capacity to produce commercial products on a fee-for-service basis. This new strategic division is intended to complement the current equipment sales and royalty-licensing business model of the Company, and will serve as a low-barrier entry point for CPG companies seeking to market trial REV™-dried products. Management expects the facility will be ready for commercial production in the second half of calendar year 2021.

EnWave's dehydration technology is currently being used to produce commercial applications in multiple market verticals, including fruits and vegetables, dairy products, ready-to-eat meals (including instant noodles), baked goods, cannabis products, nutraceuticals, and pharmaceuticals. 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 more equipment sales and ultimately growth in royalty streams.

The Company is actively engaged in many, commercially focused, research and development projects to expand the number of viable REV™-dried products and to expand the use of REV™ into additional markets.

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 also co-manufactures REV™-dried cheese for sale in bulk for private label purposes. NutraDried currently produces REV™-dried cheese using two 100kW nutraREV® machines. NutraDried produces Moon Cheese® in cheddar, gouda, bacon cheddar, parmesan garlic, black pepper white cheddar and pepper jack flavours at its manufacturing facility located in Ferndale, Washington State. Moon Cheese® is sold in over 25,000 retail locations across Canada and the United States. Notable retail points of distribution currently include Starbucks, Publix, Target, Safeway/Albertsons, Food Lion and CVS, among others.

NutraDried has demonstrated the ability for REV™ technology to operate reliably at scale for commercial operations. This subsidiary began as a proof-of-concept for the Company in 2013 as it showcased the capabilities of large-scale commercial REV™ machinery to potential royalty partners, but now has grown into a successful snack business. Furthermore, NutraDried's business model has established a precedent for analysis by dairy companies considering the commercialization of innovative, shelf-stable dairy snacks. The Company's strategy is to grow NutraDried's business through increased retail distribution, online distribution and introducing new innovative product extensions into its portfolio.

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

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

($ '000s)	*Mar 31, 2019*	*Jun 30, 2019*	*Sep 30, 2019*	*Dec 31, 2019*	*Mar 31, 2020*	*Jun 30, 2020*	*Sep 30, 2020*	*Dec 31, 2020*
NutraDried Royalty(1)	366	270	837	208	288	236	670	340

(1) The royalty payment to EnWave 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

Restructuring of NutraDried to Contain Costs in Pursuit of Return to Profitability

The Company recently announced material changes at NutraDried designed to improve margins, reduce expenses across operations, refocus on the core competencies of the business and return the business to meaningful profitability.

After a comprehensive review of all critical operations, EnWave has completed a restructuring at NutraDried that resulted in a reduction of 22 full-time employees across the company, elimination of non-essential third-party consultants and contractors, rationalizing of administration costs and refocusing the marketing strategy to ensure target spending on areas that will maximize value. The Company will incur a one-time severance charge of approximately $600, and expects the reductions in staffing to result in approximately $2 million of savings on an annual basis.

The Company has also initiated the search for a new executive leader to join NutraDried to replace the former Chief Executive Officer, Mr. Mike Pytlinski. EnWave's Chief Financial Officer, Mr. Dan Henriques, has been appointed as Chief Operating Officer of NutraDried operate in a dual capacity during the transitional period to oversee the streamlining of operations at NutraDried.

Part of the new strategy will include proactively seeking contract manufacturing opportunities to leverage the installed REV™ capacity, given the recent contract manufacturing opportunity secured by NutraDried with a leading global snack company to supply REV™-dried cheese. There are currently several additional private-label and contract manufacturing projects in NutraDried's pipeline.

Merck Cites REV™ Technology as a Faster, Viable Drying Alternative for Vaccines and Biologics

In January 2021, the Company announced that Merck & Co. Inc ("Merck") published a research paper citing EnWave's *freeze*REV® process as a viable manufacturing alternative to vial-based lyophilization for vaccines and biologics.

Merck performed a nine-month evaluation using a lab-scale *freeze*REV® unit manufactured by EnWave specifically for the dehydration of pharmaceutical products and the objective of the study was to determine the uniformity and repeatability of Microwave Vacuum Drying when used to dry liquid vaccines in vials. Data from the study shows that EnWave's *freeze*REV® process reduces drying cycle times by 80% to 90% while maintaining product activity and stability when compared to lyophilization, where drying times are seen as a significant bottleneck for vaccine manufacturing. It was noted that with the global pandemic and rapid spread of COVID-19, this has emphasized the need for accelerated vaccine development and on-demand, flexible manufacturing options.

EnWave plans to continue collaborating with GEA Lyophil through a Joint Development Agreement to further improve and refine its *freeze*REV® process and technology to potentially benefit Merck's ongoing initiative regarding vaccine dehydration.

Cannabis Processing Breakthrough – Terpene Max™ Process Yields Superior Terpene and Cannabinoid Retention

EnWave has obtained approval from Health Canada under the *Cannabis Act* for a Research License for its Delta, B.C. pilot plant facility. The Health Canada Research License has enabled the Company to expedite process development and data analytics for terpene and cannabinoid retention along with other critical properties of cannabis products processed using REV™. Through extensive in-house cannabis drying trials and third-party analysis of the dried plant material, EnWave is developing critical process know-how and gathering empirical data to further prove the product quality and value of using REV™ drying technology over traditional room or rack drying methods in the cannabis sector.

In December 2020, the Company developed Terpene Max™, a proprietary drying protocol for cannabis that dries cannabis material at temperatures lower than 40 degrees Celsius in under two hours. The first Certificate of Analysis ("COA") produced by an independent testing facility showed that flower dried using Terpene Max™ retained 88% of the terpenes when compared to the fresh flower, a material improvement. In the same study, when compared to room dried cannabis flower, the Terpene Max™ process yielded 10% more terpenes than the room dried flower. The Company plans to continue to develop empirical data supporting the quality and processing advantages of using REV™ for the rapid, gentle drying of cannabis and plans to use the findings from the research trials to secure additional machine purchases and license agreements in the sector.

Changes to Board of Directors

On November 20, 2020, the Company announced the appointment of Pablo Cussatti, a seasoned food executive with manufacturing and operations experience to the Board along with the resignation of Hugh McKinnon from the Company's Board of Directors.

U.S. Cannabis Industry Licensing

The U.S. market presents a significant opportunity for the Company to license REV™ for the drying and decontamination of cannabis and cannabis derivatives. In October 2020, the Company announced its first royalty-bearing U.S. cannabis processing license with HHC Holdings, LLC d.b.a. “GentleDry Technologies”. GentleDry Technologies is using a 10kW REV™ machine for the commercial dehydration of cannabis crops in the Pacific Northwest.

In October 2020, the Company formed a new wholly-owned U.S. subsidiary REV Technology Corporation (Delaware) that will be responsible for the licensing and sale of REV™ machinery into the U.S. cannabis market. The Company is in active dialogue with many new prospective licensees in the U.S. and is actively working to confirm additional commercial license agreements and REV™ machine sales in this market.

Normal Course Issuer Bid

On October 19, 2020, the Company announced the approval of its normal course issuer bid (“NCIB”) by the TSX Venture Exchange (“TSXV”). This NCIB commenced on October 22, 2020 and allows the Company to purchase up to 10,918,104 common shares over a period of 12 months, but no more than 2,228,195 shares in any 30-day period. Purchases are made on the open market through the TSXV by Cormark Securities Inc. at the market price of such common shares at the time of acquisition.

The Company believes that, from time to time, the market price of its common shares may be attractive and their purchase would represent a prudent allocation of capital. As of the date of this report, the Company has not yet purchased or cancelled any common shares under the NCIB, but has placed bids on numerous occasions while not in blackout.

Overall Performance

For the first quarter of fiscal 2021, the Company had consolidated revenues of $7,533, compared to $8,609 in the same period in fiscal 2020, a decrease of 12% or $1,076. The Company had a consolidated net loss of $1,371 in the first quarter of fiscal 2021, compared to a consolidated net loss of $1,426 for the first quarter of fiscal 2020, an improvement of $55. The improvement in consolidated net loss for the quarter is primarily attributed to SG&A expense efficiencies as well as government assistance from COVID-19 stimulus programs recognized during the period.

During the first quarter of 2021, the Company’s revenues decreased slightly from the prior year due to fewer large-scale machine sales to the Canadian cannabis sector, which was offset by higher Moon Cheese® sales in the period due to additional shipments to Costco for a fall “buy-one-get-one” promotion in October. The Company reported negative adjusted EBITDA of $911 for the first quarter of 2021, compared to $743 for the first quarter of 2020, a decrease of $168.

EnWave reported revenues of $2,676 for the three months ended December 31, 2020, compared to $4,555 for the three months ended December 31, 2019, a decrease of $1,879. EnWave reported a segment loss of $25 for the three months ended December 31, 2020, compared to a loss of $790 for the three months ended December 31, 2019, an improvement of $765. During Q1 2021, the Company had six customized machines under fabrication, three of which were large scale machines and two of which were shipped to the customer during Q1 2021.

NutraDried reported revenues of $4,857 for the three months ended December 31, 2020, compared to $4,054 for the three months ended December 31, 2019, an increase of $803 or 20%. NutraDried reported a segment loss of $1,346 for the three months ended December 31, 2020, compared to segment loss of $636 for the three months ended December 31, 2019, an increase of $710. NutraDried’s revenues increased primarily due to higher volume of Moon Cheese® products distributed in Costco U.S. under a national “buy one, get one” promotion relative to prior year and increased online channel distribution.

Commercial Licensing and Partnership Development

Equipment Purchase Agreement with U.S. Army

On February 10, 2021, the Company confirmed a purchase order from the U.S. Army's Combat Capabilities Development Center for a second 10kW REV™ machine. The machine will be used by a third-party food manufacturer to produce Close Combat Assault Rations for field testing. This purchase order marks an important milestone in the U.S. Army's plans to advance the use of REV™ technology for select field rations, and the Company aims to secure additional purchase orders from the third-party contract manufacturing company to establish the commercial production of military rations for the U.S. Army.

Equipment Purchase Agreement with Natural Nutrition d.b.a. Nanuva Ingredients

On February 9, 2021, the Company signed an equipment purchase agreement with Natural Nutrition SpA, d.b.a. Nanuva Ingredients ("Nanuva"), an existing royalty partner of EnWave in Chile. Nanuva purchased two additional 10kW REV™ machines to increase its royalty-bearing manufacturing capacity of premium dried fruit and vegetable snacks.

Installation of 100kW Machines in Peru and Costa Rica

In January 2021, the Company successfully completed the installations of two 100kW machines in Peru and Costa Rica respectively. The Company completed the commissioning of the 100kW REV™ machine for Pitalia, who has now begun the large-scale commercial processing of tropical fruits. The Company also completed the installation of the 100KW REV™ machine purchased by Consulting Fresh Business S.L. ("Fresh Business"), and expects to complete the training on the large-scale equipment in in the next one to two months. The Company expects both machines to be in commercial production during fiscal Q2 and that royalties will be forthcoming.

Research and Development License Agreement with Consulting Fresh Business

On January 13, 2021, the Company signed a research and development license agreement with Fresh Business for research and development on products using the Company's technology in Spain. Fresh Business has paid an initial deposit to purchase a 10kW REV™ machine for this purpose. Fresh Business currently holds a royalty-bearing commercial license agreement for the production of a broad portfolio of products in Peru and is in the process of completing the commissioning of a large-scale 100kW REV™ machine at its Peruvian facility.

Equipment Purchase Agreement with Responsible Foods

On January 5, 2021, the Company signed an equipment purchase agreement with Responsible Foods ("Naera Snacks") an existing royalty partner of EnWave in Iceland, to deliver a second 10kW REV™ machine to double Naera Snacks' manufacturing capacity to produce premium dried snacks using healthy Icelandic ingredients. Naera Snacks holds the exclusive right to process a variety of unique and healthy sustainable food products in Iceland using REV™ technology, and the Company expects to commission the second machine before April 2021.

Fabrication Completion and Delivery of Aurora Cannabis' 120kW Machines

Aurora purchased two 120kW REV™ machines for installation at its facilities based in Alberta. The fabrication of the two 120kW machines have been completed and the Company shipped both machines during Q1 2021 to be installed at Aurora's facilities. The timing of the installation and commissioning of the Aurora machines depends on Aurora's readiness to commission the machinery, and at this time the Company cannot estimate when the installation will occur. As of the date of this report, both machines have been paid for in full by Aurora.

Equipment Purchase Agreement and License Agreement with Nippon Trends

On December 1, 2020, the Company signed a royalty-bearing commercial license agreement with Nippon Trends Food Service, Inc. ("Nippon Trends"), a U.S. ramen noodle company with operations in Canada and the United States. Nippon Trends purchased a 10kW REV™ machine to initiate commercial production of dehydrated ramen noodles in Canada.

Equipment Purchase Agreement with Patatas Fritas Torres

On November 30, 2020, the Company signed an equipment purchase agreement with Patatas Fritas Torres ("Torres"), an existing royalty partner of EnWave in Spain, to deliver a 100kW REV™ machine to scale up production of shelf-stable cheese snacks in Spain. The Company previously signed a royalty-bearing commercial license agreement with Torres in fiscal year 2019, and this purchase marks another scale-up from a 10kW machine to a large-scale machine by a global royalty partner. The Company expects to deliver the 100kW unit in the Summer of 2021.

Equipment Purchase Agreement and License Agreement with NuWave Foods

On November 23, 2020, the Company signed a commercial license agreement with NuWave Foods, Inc ("NuWave Foods"), a Canadian company focussed on launching innovative shelf-stable bakery products and edibles. NuWave Foods paid an initial non-refundable deposit to secure the purchase of both a 10kW and 60kW REV™ machinery and must submit the remainder of the deposit in February 2021 in order to maintain the license agreement and secure the equipment purchases.

Termination of Tilray License

In November 2020, the Company and Tilray Canada Ltd. ("Tilray") mutually agreed to terminate the commercial license agreement between the companies. Tilray made the operational decision to not use REV™ for large-scale drying in its operations. EnWave's technology has proven to create value within large-scale cannabis post-harvest operations, and management does not believe this to be indicative of the quality or performance of EnWave's technology for cannabis processing.

Equipment Purchase Agreement with GEA Group

On November 13, 2020, the Company signed an equipment purchase agreement with GEA Group to deliver a customized pilot REV™ machine, which will be installed in its R&D facility in Germany. The pilot machine will be used for trials with prospective pharma-industry purchasers of large-scale microwave-assisted lyophilization equipment, and for internal evaluation and technology advancement activities.

Potential Royalty Partner Pipeline

The Company rents REV™ machinery to companies evaluating the technology for specific product applications 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 TELOAs 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 licensees during the term of the TELOA 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 and 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, or when the value proposition and business case 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. As of the date of this report, EnWave has **seven TELOAs** with prospective licensees evaluating the use of REV™.

Machine Fabrication and Installation Pipeline:

The table below summarizes the current fabrication and commissioning schedule of machines 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(1)	120kW	Cannabis	Canada
Aurora(2)	120kW	Cannabis	Canada
Aurora(2)	120kW	Cannabis	Canada
Fresh Business(2)	100kW	Fruits and vegetables	Peru
Cann Group(2)	10kW	Cannabis	Australia
Calbee	10kW	Fruits and vegetables	Japan
Calbee	10kW	Fruits and vegetables	Japan
GEA Lyophil GmbH	4kW	Pharmaceuticals	Germany
Patatas Fritas Torres	100kW	Dairy	Spain
Nippon Trends	10kW	Ramen Noodles	Canada
Responsible Foods	10kW	Healthy Snacks	Iceland
Natural Nutrition	10kW	Fruits and vegetables	Chile
Natural Nutrition	10kW	Fruits and vegetables	Chile
U.S. Army	10kW	Military Rations	USA

Note:

(1) The Company has paused manufacturing activity on the machine at the request of the royalty partner and will re-start construction once the royalty partner confirms an installation plan.

(2) The machine has been fabricated by the Company and delivered to the royalty partner's site and EnWave is to complete the installation and training.

NutraDried Food Company

Quarterly sales of Moon Cheese® increased in Q1 2021 compared to the quarterly sales of the product in fiscal year 2020. This increase is primarily due to the one-month national promotion with Costco in the U.S. for the 10oz Cheddar product, where the product was sold in all eight regions of Costco under the a "buy-one-get-one" discount or "BOGO". The sales to Costco for the BOGO promotion resulted in a decreased gross margin for NutraDried in Q1 2021. However, this distribution liquidated a significant portion of NutraDried's inventory balance and improved NutraDried's balance sheet position.

Moon Cheese® distribution to Costco remains highly variable and is done on a regional rotation basis, with each regional division making independent purchasing decisions. Club distribution remains an important part of our sales strategy and the Company is determined on securing additional rotations with Costco and other Club distribution and is implementing a number of strategies as part of this plan.

NutraDried expects to continue to grow its national distribution presence in the U.S. and is targeting numerous new retailers as part of its strategy. The Company'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 its expanding portfolio of products, including the convenience store channel and food service channels. The Company experienced delays and disruption in being able to engage new distribution opportunities as a result of the COVID-19 pandemic, but in recent months, the Company has seen more positive engagement from retailers and has recently begun to secure new points of distribution.

Cheese Pricing Volatility

The commodity pricing of bulk cheese has fluctuated significantly since the start of the COVID-19 pandemic, which has impacted supply chains and consumer behavior. The U.S. government intervention aimed at supporting the dairy industry and lifting cheese prices has added to the volatility. Cheese pricing for 40-pound cheddar block on the Chicago Mercantile Exchange ("CME") went from US $1.00/lb in mid-April to US $1.65/lb in December, an increase of 65%. The volatility in cheese pricing impacts NutraDried's cost of goods and resulting gross margin as bulk cheese is its primary input cost. The Company monitors the pricing of block cheese closely and will utilize forward contracts when possible to mitigate the impacts of commodity price fluctuations.

COVID-19 Pandemic Impact

The COVID-19 global pandemic has continued to negatively impact global economic activity, caused significant volatility and disruption in global financial markets, and has introduced significant uncertainty and unpredictability throughout the world. Since the start of the outbreak, it has been our priority to safeguard the health and safety of our employees and our partners, support and enforce government actions to slow the spread of COVID-19, and continually assess and mitigate the risks to our business operations. The effects of the COVID-19 pandemic have had an impact on our operations and financial performance, and we expect it will continue to affect our businesses for some period of time. While uncertainty remains as to the duration and extent of the economic impact from the COVID-19 pandemic, the Company is well positioned with its strong balance sheet and significant available liquidity. As of the date of this report, we continue to operate with a focus on controlling costs and managing short-term liquidity, while continuing to drive growth in revenues.

Given the ongoing and dynamic nature of the COVID-19 pandemic, it is difficult to accurately predict the severity of its impact on the Company. The extent of such impact will depend upon future developments, which are highly uncertain, including the duration or resurgence of the pandemic, new variants of the virus, and severity of COVID-19 and government actions taken to mitigate its impact, among others. At this time, we cannot forecast the full duration and magnitude of COVID-19 impacts, or the pace of recovery from the pandemic across our end markets, operations, and supply chains but the Company expects this pandemic to challenge our results of operations, financial position and cash flows in fiscal year 2021.

Refer to the disclosures in the Company's 2020 Annual Management Discussion and Analysis and the 2020 Annual Information Form, both available on SEDAR at www.sedar.com for disclosures related to the impact of COVID-19 on the Company's business, as well as risk factors related to the COVID-19 pandemic.

Summarized Quarterly Results

The following is a selected summary of quarterly results for the eight most recently completed quarters to December 31, 2020 reported in Canadian dollars, the Company's presentation currency:

	2019			2020				2021
($ '000s)	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*
Revenues	8,773	10,075	16,188	8,609	7,492	5,998	10,784	7,533
Direct costs	(5,653)	(7,217)	(11,597)	(5,413)	(5,629)	(4,441)	(8,629)	(5,835)
Gross profit	3,120	2,858	4,591	3,196	1,863	1,557	2,155	1,698
Expenses	(3,062)	(4,149)	(4,756)	(4,777)	(3,907)	(3,542)	(3,184)	(3,764)
Other income	-	-	-	-	-	690	929	325
Income tax (expense) recovery	(282)	(31)	(260)	155	194	129	101	370
Net (loss) income after income tax	(224)	(1,322)	(425)	(1,426)	(1,850)	(1,166)	1	(1,371)
Adjusted EBITDA(1)	1,002	139	864	(743)	(1,462)	(1,034)	20	(911)
Loss per share – Basic and diluted	(0.00)	(0.01)	(0.01)	(0.01)	(0.02)	(0.01)	(0.00)	(0.01)
Total assets	28,114	40,316	43,250	40,139	39,704	38,190	40,663	34,633
Total liabilities	8,919	9,447	12,306	10,075	10,194	9,885	12,312	7,622

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

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.

The revenues and gross profit also vary from quarter to quarter depending on the timing of Moon Cheese® product rotations at Costco, a major customer historically. Revenues for Q1 2021 were lower than Q4 2020, but higher than Q2 and Q3 2020. The increase in revenues in Q4 2020 and Q1 2021 was due to the Company's BOGO promotion at Costco in those two periods. Revenues from EnWave were also higher in Q1 2021 compared the Q2 to Q4 2020 due to more machine fabrication revenues. Revenues for EnWave were higher in Q3 2019 to Q1 2021 due to more sales of equipment to Canadian cannabis companies.

The Company's expenses increased in Q1 2021 relative Q4 2020 due to additional marketing and product development expenses at NutraDried. Expenses in Q2 2020 to Q1 2021 have decreased due to cost containment measures implemented by the Company in response to COVID-19. The Adjusted EBITDA turned negative in Q1 2021 due to NutraDried selling less volume of product. In Q4 2020 the Adjusted EBITDA was positive due to a large distribution of Moon Cheese® to Costco in that period paired with improved gross margins at EnWave.

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, 2020 and 2019, and should be read in conjunction with those financial statements.

($ '000s)	Three months ended December 31,		
	2020	2019	Change **%**
Revenues	**7,533**	8,609	(12%)
Direct costs	**5,835**	5,413	8%
Gross margin	**1,698**	3,196	(47%)
Operating Expenses			
General and administration	**1,126**	1,758	(36%)
Sales and marketing	**1,521**	1,943	(22%)
Research and development	**569**	535	6%
	3,216	4,236	(24%)
Net loss after taxes	**(1,371)**	(1,426)	
Loss per share – basic and diluted	**(0.01)**	(0.01)	

Discussion of Operations

Revenue

Revenue is earned from two business segments: EnWave and NutraDried. EnWave 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. EnWave anticipates generating revenue from toll manufacturing services beginning in 2021. NutraDried generates revenue from the sale of Moon Cheese® into retail and wholesale distribution channels, as well as co-manufacturing contracts.

	Three months ended December 31,	
($ '000s)	**2020**	**2019**
Revenue	7,533	8,609

Revenue for the three months ended December 31, 2020 was $7,533 compared to $8,609 for the three months ended December 31, 2019, a decrease of $1,076. The decrease in revenue for the three months ended December 31, 2020 was primarily due to lower purchase order volume for large-scale machinery in the first quarter of 2021 relative to 2020, offset by a small increase in NutraDried's product sales. The timing and frequency of each large-scale commercial machine order affects the timing of our revenues from the sale of REV™ machinery.

Quarterly Revenue	**2019**			**2020**				**2021**
($ '000s)	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*
EnWave	2,009	5,075	4,286	4,555	2,169	1,609	1,601	2,676
NutraDried	6,764	5,000	11,902	4,054	5,323	4,389	9,183	4,857
Total	8,773	10,075	16,188	8,609	7,492	5,998	10,784	7,533

Revenues from EnWave were $2,676 for the three months ended December 31, 2020, compared to $4,555 for the three months ended December 31, 2019, a decrease of $1,879. The decrease in revenue of EnWave is primarily due to a decrease in number of large-scale commercial equipment contracts for new REV™ equipment relative to prior year from Canadian cannabis companies. For the three months ended December 31, 2020, revenue was generated from four large-scale machine purchase contracts relative to eight in Q1 2020. The macroeconomic conditions caused by COVID-19 has delayed the purchase decisions of several current and potential royalty partners, and the Company continues to work closely with these companies to attempt to secure new orders.

EnWave continues to pursue revenue growth through commercial machine sales and installations, both remote and in-person when safe, by signing additional royalty-bearing licenses that are accompanied by machine purchase orders. Revenue for EnWave 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 reported royalties of $320 for the three months ended December 31, 2020, compared to $402 for the three months ended December 31, 2019, a decrease of $82. These royalties do not include royalties paid by NutraDried as they are eliminated in the condensed consolidated interim financial statements. Including the NutraDried royalty, EnWave generated royalties of $660 for the three months ended December 31, 2020 compared to $611 for the three months ended December 31, 2019, an increase of $49. 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. 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 $4,857 for the three months ended December 31, 2020, compared to $4,054 for the three months ended December 31, 2019, an increase of $803. The increase in revenues for the first quarter was primarily due to the higher volume of Moon Cheese® products sold as part of the Q4 2020 Costco BOGO promotional program. NutraDried experiences variability in order frequency and volumes with significant customers, which can affect the timing of product sales recorded as revenue. We expect that NutraDried's revenue will continue to grow over time as we continue to pursue new customers, additional points of distribution and explore the development of new product flavours for Moon Cheese®.

Direct costs

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

	Three months ended December 31,	
($ '000s)	**2020**	**2019**
Direct costs	5,835	5,413
% of revenue	77%	63%

Direct costs for the three months ended December 31, 2020 were $5,835, compared to $5,413 for the three months ended December 31, 2019, an increase of $422. Direct costs as a percentage of revenues for the three months ended December 31, 2020 increased by 14% compared to the three months ended December 31, 2019.

Direct costs for EnWave are driven by direct materials and overhead costs associated with commercial machine selling and construction activity. During the three months ended December 31, 2020, EnWave yielded a ratio of direct costs to revenue of 63%, compared to 69% during the three months ended December 31, 2019. The increase in gross margin is due to the Company lowering its manufacturing overhead costs during the three months ended December 31, 2020 compared to the three months ended December 31, 2019. We expect EnWave's margins will improve as the portfolio of high-margin royalty revenues grows through the commercial success of its royalty partners and the increase in demand and installation of additional machinery.

The ratio of direct costs to revenue was 85% for NutraDried for the three months ended December 31, 2020, compared to 56% in the three months ended December 31, 2019, a decrease of 29%. The decrease in gross margin was directly attributed to the increase in trade spending for the Costco BOGO promotional program in the period, higher block cheese pricing, and lower fixed overhead absorption due to lower production volume.

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 throughout 2020 and the first quarter of 2021, and the impact of higher cheese pricing will have an impact on gross margin for product sales. We continuously 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.

	Three months ended December 31,	
($ '000s)	**2020**	**2019**
General and administration	1,126	1,758
% of revenue	15%	20%

G&A expenses for the three months ended December 31, 2020 were $1,126 compared to $1,758 for the three months ended December 31, 2019, a decrease of $632. The decrease in G&A expenses for the period was largely driven by a reduction in personnel costs, legal expenses, professional fees and investor relations expenses incurred by EnWave as part of the Company's overall cost containment strategy to reduce non-essential expenses and manage short-term liquidity.

Sales and marketing

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

	Three months ended December 31,	
($ '000s)	**2020**	**2019**
Sales and marketing	1,521	1,943
% of revenue	20%	23%

S&M expenses for the three months ended December 31, 2020 were $1,521 compared to $1,943 for the three months ended December 31, 2019, a decrease of $422.

S&M expenses for EnWave were $287 for the three months ended December 31, 2020 compared to $462 for the three months ended December 31, 2019, a decrease of $175. The decrease in S&M expenses was primarily due to a decrease in travel costs, attendance at trade shows, and a reduction in personnel related costs during the period. The Company continues to pursue lower cost digital sales and marketing tools to engage and communicate with both prospective and current partners on the commercial viability of its REV™ technology.

S&M expenses for NutraDried were $1,234 for the three months ended December 31, 2020 compared to the $1,481 for the three months ended December 31, 2019, a decrease of $247. The decrease in S&M expenses for the period was primarily due to lower marketing and branding expenses, as well as lower tradeshow and travel costs.

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 and product development activities at NutraDried.

	Three months ended December 31,	
($ '000s)	**2020**	**2019**
Research and development	569	535
% of revenue	8%	6%

R&D expenses for the three months ended December 31, 2020 were $569 compared to $535 for the three months ended December 31, 2019, an increase of $34. Our R&D expenses fluctuate depending on the timing and filing of additional patents and patent maintenance fees related to the Company's intellectual property, and NutraDried's new product development activities. R&D expenses for the period increased primarily due to more NutraDried product development activities offset by a decrease in expenses related to filing of new patents. NutraDried has invested to develop new products that are scheduled for commercial launch in 2021.

Stock-based compensation

Stock-based compensation expense was $254 for the three months ended December 31, 2020, compared to $468 for the three months ended December 31, 2019. The decrease to stock-based compensation expense was due to the vesting of stock options and restricted share rights ("RSRs") granted during previous quarters which was partially offset by the grant of stock options to a new board member in November 2020 that have related expenses recorded over an eighteen-month vesting period.

	Three months ended December 31,	
($ '000s)	**2020**	**2019**
Stock-based compensation	254	468

Foreign exchange gain

Foreign exchange loss for the three months ended December 31, 2020 was $227 compared to $45 for the three months ended December 31, 2019, a difference of $182. 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 US dollars ("USD"). The fluctuation of foreign exchange is consistent with the Canadian dollar's appreciation or depreciation as measured against the USD for each period due to global macroeconomic factors.

	Three months ended December 31,	
($ '000s)	**2020**	**2019**
Foreign exchange loss	227	45

Other income

Other income relates to government assistance the Company received from stimulus programs introduced by the Canadian and U.S. government due to the COVID-19 pandemic. For the three months ended December 31, 2020, EnWave received $325 of financial relief from the Canadian federal government under both the CEWS program to subsidize payroll costs and the CERS program to subsidize rent costs. The subsidy funds received are non-repayable to the government as long as the Company continues to meet the eligibility criteria.

	Three months ended December 31,	
($ '000s)	**2020**	**2019**
Other income	325	-

Income taxes

For the three months ended December 31, 2020, the Company reported an income tax recovery of $370, compared $155 for the three months ended December 31, 2019. The Company's current tax recovery and deferred tax expense are solely related to NutraDried's U.S. sourced income and its ability to carry-back current year operating losses and apply them against taxable income from prior years.

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.

	Three months ended December 31,	
($ '000s)	**2020**	**2019**
Current income tax (recovery) expense	(390)	11
Deferred income tax expense (recovery)	20	(166)
Income tax recovery	(370)	(155)

Liquidity and Capital Resources

Working capital

The components of the Company's working capital on December 31, 2020 and September 30, 2020 are:

($ '000s)	**December 31, 2020**	September 30, 2020
Current assets		
Cash and cash equivalents	**17,401**	14,712
Restricted cash	**250**	250
Trade receivables	**1,801**	10,992
Due from customers on contract	**207**	356
Loans receivable, current	**215**	-
Inventory	**6,215**	7,117
Prepaids and other receivables	**697**	692
Income taxes receivable	**1,089**	742
	27,875	34,861
Current liabilities		
Borrowings	**2**	667
Trade and other payables	**3,498**	7,704
Customer deposits and deferred revenue	**1,331**	1,771
Current portion of lease liabilities	**702**	427
Current portion of other liability	**121**	124
	5,654	10,693
Working capital	**22,221**	24,168

As at December 31, 2020, the Company had working capital of $22,221, compared to $24,168 as at September 30, 2020. As at December 31, 2020 the cash and cash equivalents balance is $17,401 compared to $14,712 as at September 30, 2020, an increase of $2,689. The change in cash and cash equivalents is primarily due to the Company's collection of trade receivables and decrease to inventory, offset by the reduced trade and other payables. The Company generated net cash from operating activities of $4,228 for the three months ended December 31, 2020.

EnWave had trade receivables of $838 as at December 31, 2020, compared to $996 as at September 30, 2020, and NutraDried had trade receivables of $963 as at December 31, 2020 compared to $9,996 as at September 30, 2020. The decrease in EnWave's trade receivables relates to the net collections of 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, 2020.

Due from customers on contract to EnWave as at December 31, 2020 was $207 compared to $356 as at September 30, 2020, with the decrease related to amounts being billed to customers. The amounts due from customers on contract are billed and collected when project specific milestones are reached on each project.

EnWave had inventory of $2,663 as at December 31, 2020 compared to inventory of $2,939 at September 30, 2020, a decrease of $276. The inventory of EnWave relates to 10kW machines used for rentals and those under fabrication, as well as, parts for larger machines. The decrease in inventory is primarily due to the sale of 10kW machines and parts consumed for the fabrication of large-scale equipment purchase contracts.

NutraDried had inventory of $3,552 as at December 31, 2020 compared to $4,178 as at September 30, 2020, a decrease of $626. NutraDried's inventory is comprised of food product and packaging supplies. Inventory at NutraDried was lower as at December 31, 2020 compared to September 30, 2020 due to large shipments to Costco in the period.

EnWave had current loans receivable of $215 as at December 31, 2020, compared to $nil as at September 30, 2020 in relation to the equipment finance loans to be paid by customers related to equipment purchase contracts. The loans receivable bear interest at annual interest rates ranging between 8% and 12%, have fixed terms ranging from 18 to 46 months and are amortized with monthly blended payments of interest and principal.

Trade and other payables as at December 31, 2020 includes $1,444 of trade payables and accrued liabilities related to EnWave, compared to $1,638 as at September 30, 2020, the decrease is associated with the timing of payments offset by the purchases of materials. Trade and other payables for NutraDried were $2,054 as at December 31, 2020, compared to $6,066 as at September 30, 2020 with the decrease largely associated with the payment of trade, personnel and promotional expenses that were accrued at September 30, 2020.

Financing and liquidity

Cash and cash equivalents were $17,401 as at December 31, 2020 compared to $14,712 as at September 30, 2020. As at December 31, 2020, we had net working capital of $22,221 compared to $24,168 as at September 30, 2020. The change in cash consists of:

	Three months ending December 31,	
($ '000s)	**2020**	2019
Cash generated from (used in) operating activities	**4,228**	(2,796)
Cash used in investing activities	**(615)**	(133)
Cash (used in) generated from financing activities	**(745)**	815

During the three months ended December 31, 2020, the Company received $325 from various government subsidies in response to the impacts of COVID-19. We believe that our current working capital surplus of $22,221 is sufficient to meet our financing needs, maintain right-sized operations and to grow in the near- and mid-term. 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. During the three months ended December 31, 2020, NutraDried had repaid the full amount previously drawn on the credit facility.

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 Company is targeting to 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, royalty generation, Moon Cheese® sales, and toll manufacturing services in the future, 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, 2020, we incurred capital expenditures of $689 related to the acquisition of plant and equipment. NutraDried accounted for $139 of the capital expenditures for the period with additions to production and packaging equipment. EnWave accounted for $550 of the capital expenditures for the period primarily for assets under construction in relation to the build-out of its REVworx™ toll manufacturing facility.

The Company has started the build-out its REVworx™ toll manufacturing facility at its corporate headquarters in Delta, B.C. The REVworx™ facility is being designed to meet all the necessary quality standards and food safety requirements for commercial food processing. This also includes preparing our facility to install and operate a large-scale REV™ processing line and equipment, as well as purchasing auxiliary food processing and packaging equipment. The capital investment is expected to be $1.5 million and EnWave's current cash holdings of approximately $17.4 million is more than sufficient to fund the required investment. Based on current forecasts, we believe that the facility will be ready for commercial food production in the second half of calendar year 2021. As at December 31, 2020, the Company had $843 of contractual capital expense commitments related to the project.

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 fund operations in the near term and may require additional capital in the long term to expand production capacity to support future improved distribution of Moon Cheese®.

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, 2020:

($ '000s)	**Due within 1 year**	**Due between 1 - 3 years**	**Due after 3 years**	**Total**
Financial liabilities				
Borrowings	2	8	181	191
Trade and other payables	3,498	-	-	3,498
Lease liabilities	702	1,282	126	2,110
Other liability	121	96	-	217
Total	**4,323**	**1,386**	**307**	**6,016**

Transactions with Related Parties

During the three months ended December 31, 2020, the Company paid quarterly directors' fees to its five 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, 2020 and 2019:

	Three months ended December 31,	
	2020	**2019**
	$	**$**
Directors' fees	**50**	40
Stock-based compensation	**77**	74
	127	114

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 comprises the following expenses:

($ '000s)	Three months ended December 31,	
	2020	**2019**
	$	**$**
Salaries, bonuses and short-term employee benefits	**605**	755
Stock-based compensation	**97**	242
	702	997

Critical Accounting Estimates and Judgements

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.

There have been no changes in the Company's critical accounting estimates during the three months ended December 31, 2020. 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, 2020.

Accounting standards and amendments issued and not yet adopted

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

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

The amendment clarifies the classification requirements to determine if a liability should be presented as current or non-current in the statement of financial position. Under the new requirement, the assessment of whether a liability is presented as current or non-current is based on the contractual arrangements in place as at the reporting date and does not impact the amount or timing of recognition. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and is to be applied retrospectively, with earlier application permitted. The Company is currently evaluating the potential impact of these amendments on the Company's consolidated financial statements.

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, due from customers on contract and loans receivable. The Company mitigates its exposure to credit loss by maintaining the majority of cash balances with major Canadian financial institutions.

The Company provides credit to its customers in the normal course of business and, as such, has exposure to credit risk in relation to the collection of trade receivables due from customers on contract and loans receivable. Prior to issuing credit, management 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, by requiring commercial letters of credit, 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, 2020, the Company has recorded a $nil (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 and loan receivables are 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 December 31, 2020:

	Neither past due nor impaired	**Past due but not impaired**		
($ '000s)	**0 – 30 days**	**31 – 90 days**	**91 – 365 days**	**Over 365 days**
Trade receivables	1,541	78	182	-
Due from customers on contract	207	-	-	-
Loans receivable	442	-	-	-
Total	2,190	78	182	-

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, 2020, the Company had cash and cash equivalents of $17,401 to settle current liabilities of $5,654.

Financial assets maturity table:

($ '000s)	**0 – 30 days**	**31 – 90 days**	**91 – 365 days**	**Over 365 days**
Cash and cash equivalents and restricted cash	17,401	-	250	-
Trade receivables	1,597	41	163	-
Due from customers on contract	-	207	-	-
Loans receivable	33	50	132	227
Income taxes receivable	-	-	1,089	-
Total	19,031	298	1,634	227

Financial liabilities, excluding other liability, maturity table:

($ '000s)	**0 – 30 days**	**31 – 90 days**	**91 – 365 days**	**Over 365 days**
Borrowings	2	-	-	189
Trade and other payables	3,418	80	-	-
Lease liabilities	56	114	532	1,408
Total	3,476	194	532	1,597

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 borrowings. The Company earns interest on deposits based on current market interest rates, which during the three months ended December 31, 2020 ranged from 0.40% to 2.10% (2019 – 2.00% to 2.30%). A 1% change in interest rates would affect the results of operations by approximately $32 (2019 - $35).

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, 2020, 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, 2020, and September 30, 2020, 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, 2020 and 2019 as follows:

($ '000s)	**2020** **$**	**2019** **$**
US dollar	111	113

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 in the Company's condensed consolidated interim financial statements:

($ '000s)	*Mar 31, 2019*	*Jun 30, 2019*	*Sep 30, 2019*	*Dec 31, 2019*	*Mar 31, 2020*	*Jun 30, 2020*	*Sep 30, 2020*	*Dec 31, 2020*
NutraDried Royalty	366	270	837	208	288	236	670	340
Intercompany revenue adjustment(1)	(366)	(270)	(837)	(208)	(288)	(236)	(670)	(340)
Revenues(2)	8,773	10,075	16,188	8,609	7,492	5,998	10,784	7,533
Revenues	8,773	10,075	16,188	8,609	7,492	5,998	10,784	7,533

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 or recovery and non-recurring impairment, restructuring and severance charges and government assistance. 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*. 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 period results.

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

($ '000s)	*Mar 31, 2019*	*Jun 30, 2019*	*Sep 30, 2019*	*Dec 31, 2019*	*Mar 31, 2020*	*Jun 30, 2020*	*Sep 30, 2020*	*Dec 31, 2020*
Net (loss) income after income tax	(224)	(1,322)	(425)	(1,426)	(1,850)	(1,166)	1	(1,371)
Amortization and depreciation	492	359	591	359	407	513	759	670
Stock-based compensation	452	501	511	468	374	314	227	254
Foreign exchange loss (gain)	30	13	3	45	(338)	151	92	227
Finance (income) expense, met	(30)	(55)	(76)	(34)	(26)	(27)	(29)	4
Income tax expense (recovery)	282	31	260	(155)	(194)	(129)	(101)	(370)
Non-recurring impairment and restructuring costs	-	612	-	-	165	-	-	-
Government assistance	-	-	-	-	-	(690)	(929)	(325)
Adjusted EBITDA	1,002	139	864	(743)	(1,462)	(1,034)	20	(911)

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, R&D, 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 *nutra*REV® and *quanta*REV® technologies in the cannabis 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.
- R&D 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 R&D, 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.
- The impact of the COVID-19 pandemic on the Company's business, operations, capital resources and/or financial results. See the *"Risk Factors"* section in the Company's Annual Information Form for further information about related risks and uncertainties.

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 2020 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; 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; unexpected tax liabilities; business interruptions and/or shutdowns caused by the COVID-19 pandemic.

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

As of the date of this report, 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, 2020		**February 25, 2021**	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Common shares outstanding	111,576,755	N/A	111,606,755	N/A
Options				
Outstanding	6,996,667	1.46	6,871,667	1.46
Exercisable	4,986,669	1.48	4,956,669	1.48
RSRs				
Outstanding	800,000	N/A	800,000	N/A
Warrants				
Investor warrants	5,012,202	1.50	5,012,202	1.50

As of the date of this MD&A, the Company has 111,606,755 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 1,895,000.

Other MD&A Requirements

Information pursuant to National Instrument 51-102.

Copies of all previously published financial statements, MD&A, 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
Stephen Sanford
Patrick Turpin
Pablo Cussatti

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:

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