

Smallcaps

Investment Research

EnWave Corporation (ENW)

January 16, 2016

EnWave Corporation offers industrial-scale dehydration technology for commercial applications in the food and pharmaceutical spaces. The Company's Radiant Energy Vacuum ("REV") platforms are becoming the new global dehydration standard, as they are faster and cheaper than freeze drying, and have better end product quality than air drying or spray drying.

EnWave had an outstanding fiscal year 2015, ended September 30, 2015. It generated \$5.86 million in sales, compared with \$1.19 million for the 2014 period, a sharp increase of 390%.

During the past quarters, the Company signed five commercial royalty-bearing license agreements, it installed three commercial REV dryers and received orders for six smaller units.

Moreover, Moon Cheese, the healthy dried cheese snacks, may very well become EnWave's first blockbuster product. The snacks are available at more than 20,000 retail stores across North America and in 8,900 Starbucks locations. We expect NutraDried to realize sales of \$5 to \$6 million in fiscal year 2016.

We reiterate our buy recommendation for EnWave Corp. with a price target of \$3.21, which is 358% above today's stock price.



- ❑ In the coming months several companies, such as Bonduelle, Gay Lea Foods, and Umland, will initiate commercial sales with REV manufactured products, which will obviously have a positive effect on EnWave's royalty income.
- ❑ The growing number of operational REV machines will increase EnWave's royalty income. And with each additional unit installed, the Company edges closer to becoming cash flow and net income positive.
- ❑ Thanks to a recent private placement, EnWave has about \$6 million in the bank. On top of that, it may receive \$1.4 million, which is currently tied up as collateral.



Market Data

Price	\$0.70
Sector	Diversified Machinery
52-Week Price Range	C\$0.67 - C\$1.34
Shares Issued (m)	90.77
Market Cap (m)	\$63.54
Listings	ENW (TSXV) & E4U (Fra.)
Website	http://www.enwave.net

THE COMPANY

EnWave Corporation is a Vancouver-based industrial technology company, that develops commercial applications for its proprietary Radiant Energy Vacuum (REV) dehydration technology.

The University of British Columbia manufactured the first prototype REV machine in 1996 for dehydrating food and nutraceuticals. Since then, EnWave has developed three commercial-scale REV platforms: nutraREV for the food industry to dry fruits, vegetables, meats and other products quickly and at low-cost, while maintaining high levels of nutrition, taste, texture and color; powderREV for the dehydration of bulk food cultures, probiotics and fine biochemicals such as enzymes; and quantaREV for continuous, high-volume low-temperature drying of sensitive food products in liquid or solid form.

In addition, the Company has one developmental-stage REV platform: freezeREV to stabilize and dehydrate biopharmaceuticals such as vaccines.

The Company’s business model is to sell REV machinery and to sign royalty-bearing commercial licenses with leading food and pharmaceutical companies for the use of its revolutionary technology. Each license agreement restricts the partner’s use of the technology to specific applications and geographic areas.

EnWave had an outstanding fiscal year 2015, ended September 30, 2015. Its revenues continued to increase sharply, as it generated \$5.86 million in sales in FY 2015, compared with sales of \$1.19 million for the 2014 period, an increase of 390%.

Also contributing to the sharp increase in sales was EnWave’s 51% daughter NutraDried LLP, which is a Joint Partnership with ND Creations LLP. It develops, markets and produces healthy dried snack products. NutraDried’s first product, Moon Cheese, is currently available at over 20,000 retail stores

across North America and in 8,900 Starbucks locations. Its sales are growing month by month at astonishing rates. NutraDried also has plans to enter the \$8.3 billion energy & nutrition market (Also see Recent Events).

Moreover, during the past quarters, EnWave signed five commercial royalty-bearing license agreements, it installed three commercial REV dryers and received orders for six smaller units.

Customer	Machines In Operation	Machines Ordered or Anticipated
Hormel	100kW nutraREV	One 100kW nutraREV
Bonduelle	120kW quantaREV	One 300kW quantaREV
NutraDried	100kW nutraREV	One 100kW nutraREV
Gay Lea Foods	10kW	One 100kW nutraREV
Natural Nutrition	10kW	Two 10kW nutraREVs
Umland LLC	10kW	
Sutro Biopharma	Prototype	powderREV
Merck	Lab-scale	Non-GMP Dryer
Partial list of machines in use & sales pipeline. Source: Company Presentation		

Thanks to a recent oversubscribed private placement, EnWave has about \$6 million in cash, which is sufficient to fulfill upcoming machine purchase orders from various customers. Most likely, this was the last private placement in the Company’s history, as it aims to become cash flow positive this year.

EnWave currently employs 30 people in Canada who operate two separate facilities including a pilot plant and an engineering facility in Vancouver.

EnWave generates revenues from the following three sources:

- Machine sales and maintenance directly through EnWave Canada;
- Royalty streams from partners ranging between 2% and 10% on commercial products produced with a REV machine;

- ❑ NutraDried, which sells healthy dried cheese snacks.

Clients

EnWave's international customer list truly validates its technology and potential. The Company's market strategy targets large, Tier 1 companies in the food and pharma sector, as well as Tier 2 players in niche markets and regions.

In most cases, EnWave initially signs research collaboration agreements with potential partners, offering them certain product and geographic exclusivity. After completing a satisfactory due diligence on the technology and market opportunity, those companies have the option to sign commercial agreements and place machine orders.

Thus far, the Company has signed fifteen royalty-bearing licenses, opening up eight distinct market sectors for commercialization, with companies that include:

- ❑ Bonduelle, a global leader in the production of vegetables;
- ❑ Hormel Foods Corporation, a multinational manufacturer and marketer of consumer-branded food and meat products, for the production of healthy dried meat products;
- ❑ Gay Lea Foods, a dairy co-operative comprised of over 1,200 Canadian farmers, to process cheese snack products for human and pet consumption;
- ❑ CAL-SAN Enterprises, a blueberry producer in British Columbia;
- ❑ Natural Nutrition, for the production of berry products in Chile;
- ❑ Milne Fruit Products, for the production of several dehydrated fruit and vegetable products in the whole, fragmented and powdered form;
- ❑ A leading North American enzyme company, to dehydrate a series of food-related enzymes for their Tier 1 clients; NutraDried LLP to develop, manufacture, market and sell all-natural cheese snack products in the United States under the Moon Cheese brand;
- ❑ Umland for the dehydration of high kosher cheese snack products; and

- ❑ Sutro Biopharma, for the dehydration of a cell-free medium used in their patented protein synthesis process.

EnWave has signed research collaboration agreements with an expanding list of companies such as Nestlé, Kellogg's, Ocean Spray Cranberries, Sun-Maid Growers, R.J. Reynolds, Merck Pharma, and many others.

NutraDried LLP

NutraDried LLP develops, manufactures, markets and sells 100% all-natural cheese snacks under the Moon Cheese brand. EnWave USA Corporation, a 100% daughter of EnWave Corp, holds a 51% stake in NutraDried, while ND Creations, a private company majority owned by a former director of EnWave, controls 49%. EnWave benefits from selling REV machines to the joint venture, while it also receives a revenue-based royalty of 5%.



Moon Cheese is now available at 7,500 Starbucks corporate stores in the U.S. and at 1,400 corporate stores in Canada.

In July 2013, the LLP began producing cheese snack products under the Moon Cheese brand in three flavors - Gouda, American Cheddar and Pepper Jack - for initial market introductions and early-stage sales. Shortly thereafter, Moon Cheese was launched in 192

Quality Food Centers and Fred Meyer stores, chains owned by Kroger Company. Launching Moon Cheese in two of the most well-known grocery banners in the Pacific Northwest was the perfect opportunity to build brand awareness and test several in-store promotional plans.

After starting production on a smaller unit, the LLP installed a 100kW nutraREV machine in Ferndale, Washington in June 2014, which has been producing commercial products since.

Since then, distribution of Moon Cheese has expanded very rapidly, especially since last August, when Spire Enterprises became the exclusive distributor of all NutraDried products in the United States. Spire's management team includes former senior Pepsi bottling executives with domestic and international expertise in marketing, distribution and sales activities.

Moon Cheese is now available in over 20,000 grocery stores across the United States and Canada. Recently, NutraDried confirmed that Moon Cheese will be sold at Ahold's 700+ supermarkets, which are known under brands as Stop & Shop, Giant Food Stores, Martin's Food Markets, and Peapod. In addition, a trial at several Walgreens stores has started.

But the subsidiary's strongest accomplishment so far, is that Cheddar and Gouda Moon Cheese snacks are available at 7,500 Starbucks corporate stores in the U.S. and in 1,400 corporate stores in Canada. When Starbucks started selling 2oz packs of Moon Cheese in July 2015, it was immediately clear they were a big hit. And sales continue to outperform.

A success story, such as Starbucks', opens doors of other retailers. We wouldn't be surprised if distribution of Moon Cheese continues to expand by thousands of stores in the following months.

We heard that in fiscal year 2015 NutraDried has grown from receiving an average of 13 purchasing orders per month to 130 orders

per month. Sales are truly trending up on a month-by-month basis. NutraDried is very close to being cash flow positive. (Also see Financials).

A direct result of all this sales activity is that NutraDried's revenues in fiscal year 2015 reached \$2,595,000 while they were only \$221,000 in fiscal year 2014.

NutraDried is clearly on the eve of exponential growth. By using EnWave's proprietary Radiant Energy Vacuum (REV) technology, the subsidiary can produce all-natural products with attractive colors, excellent flavor and high nutritional content, characteristics valued by many consumers.

TECHNOLOGY

Until recently, food processing companies had the choice between either 'freeze drying', which provides superior product quality, but is cost prohibitive and is only used to process higher-value products; or 'spray and air-drying', which is cost effective but degrades the quality of the products (Also see table below).

Now thanks to EnWave's Radiant Energy Vacuum technology, those companies, for the first time, can combine the effectiveness of freeze drying with the economics of spray and air drying.

EnWave's REV technology utilizes radiant energy (microwaves) in a vacuum environment to homogeneously dehydrate a wide variety of foodstuffs and biomaterials at temperatures ranging from approximately 37.5°C to below freezing.

The key to the technology is the vacuum environment in which the energy is applied, because it reduces the atmospheric pressure, therefore lowering the temperature at which the moisture can efficiently be removed. This reduction of heat and oxidization minimizes the damage inflicted on the REV-dried products, preserving richer flavors, brighter colors and higher nutritional content.

Four REV platforms have been developed to address specific market opportunities. Three platforms are at a commercial stage, while

the other is under development. Each one is described below.

	EnWave's REV Technology	Freeze Drying	Air Drying
Better Product	Superior Color Superior Flavor High Nutritional Retention	High Nutritional Retention	Heat & Oxygen Damages Color, Flavor, Nutrients and Texture
Faster Process	Minutes or Hours (1,5 hours for Blueberries)	Hours or Days (24 - 36 hours for Blueberries)	Hours (6 hours for Blueberries)
Cheaper Cost	Up to 80% lower processing costs than freeze-drying (combination of lower capital, labor and energy costs)	High Capital Costs High Energy Costs	Low Capital Costs Competitive Energy Costs
Comparison between EnWave's REV Technology, Freeze Drying, and Air Drying. Source: Company Presentation			

Commercial Stage

nutraREV is designed for the dehydration of fruits, vegetables, herbs, dairy products, meats and seafood. It provides higher nutritional content, and improved appearance, flavor and texture over freeze drying, which is the industry standard for dehydrating many food applications.

The nutraREV platform has been built up to 100kW in power, and is capable of producing as much as 300 kg (660 lbs) of dried product per hour. A 100kW machine sells on average for \$1.2 million and generates between \$200,000 and \$400,000 in royalties per year at full utilization.

nutraREV is EnWave's most popular technology and continues to grow among food companies. In June 2013, for example, **Hormel Foods Corporation**, a Fortune 500 company, signed a royalty-bearing commercial license to use nutraREV machinery. Early 2015, after conducting successful technology, product and market studies, Hormel entered into a purchase agreement for a 100kW commercial nutraREV unit.

And in June 2015, the 15 billion dollar company, known for its numerous meat and food products, unveiled Spam Snacks, dried,

bite-sized flavored pieces of the iconic canned meat that come in a pouch.

The new product capitalizes on consumers' appetite for portable, high-protein foods and are produced with EnWave's REV dehydration technology. The snacks are available in three flavors: classic, bacon, and teriyaki. Hormel may add new flavors in the future.

Spam Snacks are currently available in a number of select markets and grocery stores, such as Wal-Mart, and retail at \$2.39 for a 1.4 ounce package. If successful, the snacks will be introduced across the U.S. and Hormel could buy more REV units.

James Splinter, group vice-president of Hormel's Grocery Products unit commented, "This represents a breakthrough innovation. We were inspired by the candy bar bites that have been a hit for many candy companies. We think bites are very on-trend, and these fun-to-eat Spam brand product snacks are a perfect complement to the fast-growing dried meat snacking category".

In addition to the 100kW machine order, Hormel agreed to purchase a 2kW REV machine for product development and a 10kW REV machine for market studies that it already had in use. This indicates that the well-known food processor want to continue

developing new products with EnWave's technology.

The sale of the commercial REV machine generated approximately \$1.2 million in sales for EnWave. Royalties should vary between \$200,000 and \$400,000 per year at full utilization.



The Spam Snacks for sale in three flavors at Wal-Mart.

Also, in November 2014, EnWave signed a commercial license with **Gay Lea Foods**, an industry leader in the production and processing of dairy products. The license grants Gay Lea the exclusive right to process certain cheese snack products for human and pet consumption in Canada using the Company's REV technology.

Late April 2015, a 10kW commercial REV machine was started up at Gay Lea's production facility in Ontario, Canada.

The dairy products company immediately commenced production with its 10kW REV unit, which produces about 30 pounds of finished cheese snacks per hour. First royalties from Gay Lea are expected in 2016.

For Gay Lea to retain its exclusive license, it must submit an additional order for at least one 100kW nutraREV® machine within 18 months from the signing of the original purchase order. This obviously puts pressure on Gay Lea to launch the new products as fast as possible.

And finally, in August 2015, EnWave amended and expanded its existing commercial royalty-bearing license with **Milne Fruit Products**, a processor and global supplier for the industrial food ingredient and beverage markets.

Milne entered the dried fruits market a couple of years ago positioning MicroDried products as pure, healthy alternatives to sugar-infused offerings.

The MicroDried products are all-natural whole fruit pieces and powders with no added sugars, flavors, colors or preservatives. Independent third-party testing comparing MicroDried products to air-dried and freeze-dried products in a variety of applications revealed overall superiority in appearance, flavor and texture. Milne's MicroDried products are produced with an EnWave dehydrator.

The fruit products are available in several moisture ranges from crunchy to chewy, offering a wide scope of applications from hot and cold cereals to baked goods, trail mixes, granola bars, baking mixes and more. Additionally, each MicroDried item retains vital nutrients; offering high levels of polyphenol antioxidants, which are ideal for new health and wellness consumer products.

After an extensive product and market development effort, Milne's MicroDried products have been gaining traction with a growing network of customers. As a matter of fact, the Washington based food processor has recently ramped up its production to satisfy significant orders from several major food companies.

powderREV technology is designed to dehydrate a wide variety of materials including enzymes, probiotics and food cultures, pharmaceuticals, non-regulated biologicals and certain dry food products.

powderREV is ideally suited to replace the expensive and time consuming process of tray freeze drying, which takes place in a high heat environment and damages sensitive organisms. Moreover, laboratory tests have shown that the potential benefits of powderREV over freeze drying include less

capital cost due to faster dehydration times, smaller plant footprints, and lower energy and labor costs.

Sutro Biopharma, a pharmaceutical company based in San Francisco, commenced tests with a lab-scale powderREV machine in September 2012. After validating the efficacy and stability of cell-free extracts, it signed a commercial royalty-bearing license and machine purchase agreement in May 2014. Shortly thereafter, EnWave delivered an 8kW prototype powderREV machine to Sutro to conduct a series of process optimization tests.

In September 2015, Sutro ordered a commercial scale powderREV machine. The installation of the customized unit, at Sutro's GMP manufacturing facility in San Carlos, California, is scheduled for the first half of 2016.

This will be the first operational powderREV machine. It will be used to dry and store cell-free extracts, as it simplifies storage conditions and improves product stability.

Sutro has already deposited an initial milestone payment, and will make additional ones during the manufacture and commissioning of the equipment.

Once the machine is in operation, EnWave will receive an undisclosed royalty on all products manufactured. Knowing that pharmaceutical products are costly, income for EnWave could be quite high.

quantaREV is designed for high-volume, low-temperature dehydration of solids, liquids, granular or encapsulated products. It uses a continuous belt design in a controlled vacuum-microwave environment with an eventual target of dehydrating several tonnes of material per hour. This low temperature technology is designed to provide a higher-quality end product than what is currently achieved with spray drying or air drying.

In November 2013, EnWave signed a commercial royalty-bearing license with a division of **Bonduelle**, the world's leading processed vegetable producer. Bonduelle's

global distribution reaches into over 100 countries worldwide, primarily selling fresh, frozen and canned vegetables. After signing the agreement, Bonduelle received an 18kW quantaREV machine to conduct tests and product refinement.

The market evaluation results, with a number of foodservice and retail food companies, as well as chef clients, illustrated that the majority of participants could not tell the difference between fresh and dehydrofrozen (DHF) products after being cooked. These results, combined with the economic value of DHF products derived from longer controlled shelf-life, more efficient delivery, and better product consistency over a calendar year, contributed to Bonduelle's decision to secure global exclusive licensing rights for REV technology.

In July 2015, the Company installed, and started up the first 120kW commercial quantaREV machine at Bonduelle's facility. This unit enables Bonduelle to produce frozen vegetables with enhanced flavor, color and nutrient concentration. As such, it will be able to significantly distinguish itself from its competitors.

In a recent interview with CBC, Bonduelle Canada CEO Daniel Vielfaure raved about the many virtues of EnWave's REV dried vegetables. He said, "Right now, the quality of 'water-heavy' frozen vegetables when served is not what consumers are expecting to have. Vegetables become mushy because the water in them expands and destroys their molecular structure. But EnWave has the leap on everyone when it comes to the production of dehydrofrozen vegetables."

Bonduelle will pay a production-based royalty on a quarterly basis and a monthly lease for the use of the quantaREV machinery. First sales from Bonduelle are expected in early 2016.

When Bonduelle starts selling the REV dehydrated vegetables, it will generate an attractive production-based royalty for EnWave. If successful, several more units could be ordered.

Moreover, Bonduelle is also collaborating with EnWave to finalize the design and construction of a 300kW quantaREV machine for potential future use.

Development Stage

freezeREV is designed to provide high-speed dehydration for live and active organisms in vials with the potential for significantly lowering operating costs compared with freeze drying. freezeREV is intended for products which must have a minimum moisture content in order to maximize their shelf-life.

In December 2011, EnWave signed a Research and Development agreement with **Merck**, one of the world's leading pharmaceutical, chemical and life science companies. Under the terms of the 10 year agreement, both parties established a work plan for the production of a specifically designed non-**GMP** freezeREV dryer. Merck should bear all the costs associated with this process.

GOOD MANUFACTURING PRACTICES (GMP)

Good Manufacturing Practices (GMP) are the practices required in order to conform to guidelines for manufacture and sale of food, drug products, and active pharmaceutical products. These guidelines provide minimum requirements that a pharmaceutical or food products manufacturer must meet to assure that the products are of high quality and don't pose any risk to the consumer or public.

Good manufacturing practices, along with good laboratory practices and good clinical practices, are overseen by regulatory agencies in the United States, Canada, Europe, China, and other countries.

The idea was to evaluate EnWave's REV technology as a viable replacement for **lyophilization** in the pharmaceutical industry. More specifically, the developmental work and testing has focused on the potential of dehydrating several vaccinations.

LYOPHILIZATION

Freeze drying, technically known as lyophilization, is a dehydration process typically used to preserve a perishable material or to make the material more convenient for transport. Pharmaceutical companies often apply freeze drying on products such as vaccines and other injectables.

Freeze drying works by freezing the material and then reducing the surrounding pressure to allow the frozen water in the material to sublime directly from the solid phase to the gas phase. By removing the water from the material and sealing the material in a vial, the material can be easily stored, shipped, and later reconstituted to its original form for injection.

Because lyophilization is the most complex and expensive form of drying, its use is usually restricted to delicate, heat-sensitive materials of high value.

Unlike lyophilization, freezeREV employs a combination of microwave energy with a low pressure environment to achieve rapid, highly controlled dehydration of live or active biological materials.

Tests conducted on a lab-scale freezeREV show that processing times are far less than with lyophilization, which dramatically reduces costs. In addition, the footprint of a freezeREV machine is sizably smaller than a lyophilizer. And finally, third party tests show no key differences between freezeREV and lyophilizer dried products. All in all, solid test results have been achieved, and EnWave has satisfied all of Merck's requirements to proceed.

Last November, EnWave commenced manufacturing a commercial scale freezeREV, for which it received an initial milestone payment from Merck. Additional milestone payments are expected on the delivery and start-up of the machine. In total, we expect EnWave to eventually generate several million dollars of revenues from this deal.

When finished, the REV unit will enable further testing and advancement of the dehydration technology in the pharmaceutical industry. If all goes well, the idea is to augment the design to satisfy the GMP requirements (GMP certification). This would obviously require a more substantial investment from Merck to build such a machine. At that moment, Merck would be able to pursue FDA approval.

While Merck retains the option to exclusively license REV for the drying of several specific vaccines, the agreement is non-exclusive, which enables EnWave to pursue additional partners in the pharma field. This could ultimately help all biotechs in their potential future pursuit of regulatory approval for the use of REV, as the FDA will likely be more compelled to expedite the approval process if more than one company is lobbying for it.



A lab-scale freezeREV designed to provide high-speed dehydration for live and active organisms in vials.

Test results with freezeREV have been very encouraging, prompting the manufacture of a scaled-up REV machine for continued development and product testing. Although it will take some more time to develop and commercialize

freezeREV, the agreement with Merck provides revenues for EnWave from the sale of the machine, and it again confirms the high potential of the technology when a giant like Merck decides to proceed after a long test period.

Expanding Patent Portfolio

EnWave currently holds, or has filed, 18 separate patents that protect both its REV technology and specific methods of use. Because the Company's technology continues to be developed, new innovations are made. As such, its intellectual property portfolio continually expands.

A few months ago, for example, EnWave was granted a Canadian patent that protects the improved modular design of its nutraREV machines. The new design allows for easy expansion in scale of a nutraREV machine, which is very useful, because there's sort of a maximum scale at which products can be most effectively dehydrated. Thanks to the modular design however, as many units as necessary can be linked up, making it easier to customize a machine to each client's specific needs. The modular nutraREV patent has also been filed in the United States and Europe.

EnWave's patent suite now consists of thirty-five patent approvals protecting its REV technology in the United States, Canada, the European Union, China, Hong Kong, New Zealand, Chile and Australia. The Company also has an additional forty-one patent approvals pending in countries such as Brazil, India and Mexico.

These patents are an essential part of EnWave's royalty-generating business, because each time a new patent is granted, the royalty stream timeline extends twenty years from the patent's filing date.

As EnWave's technology continues to be developed, new innovations are made. As such, it is expected that many more patents will be filed in the coming years.

THE MARKET

EnWave targets both the drying equipment market and dried products market, where it partners with companies that dehydrate their products.

The total market size for freeze drying equipment is estimated at \$16 billion and is expected to reach \$35 billion by 2020. Especially the food processing and pharmaceutical industries are expected to continue to drive demand for freeze drying equipment. While food processing is the largest segment with about 35% of the market, biotechnology is expected to be the fastest grower the following years.

The worldwide market size for dried products is estimated at an astonishing \$400 billion. The largest segment, estimated at \$140 billion, is the food industry, which includes dried fruits, vegetables, meats, etc. The biopharmaceuticals segment comes in second with a \$67 billion market share, closely followed by probiotics, food cultures and enzymes, that generates \$61 billion annually. The dried beverage market, primarily made up of coffee and milk, is estimated at \$31 billion.

EnWave intends to develop the market for REV technology by selectively collaborating with strategic partners focused on reducing processing costs and creating new or improved product opportunities.

MOON CHEESE AT STARBUCKS

The Moon Cheese adventure at Starbucks started mid-July 2015, when Cheddar and Gouda Moon Cheese snacks became available at approximately 3,400 Starbucks locations in the United States, as part of sixteen week long trial.

Ellie Halevy, Starbucks vice president, Food commented: "Since so many people are snacking these days, we decided to increase the number of snacks we offer in our stores.

We looked for companies that could help us provide a wider variety of options both sweet and savory."

It was the intention that based on the trial period, Starbucks would determine if it was justified to continue selling the product. However, right from the start it was clear that Moon Cheese was a big hit at Starbucks, as comments on social media, blogs and forums were overwhelmingly positive.

That positive impression was soon confirmed as NutraDried received over forty reorders from different Starbucks distribution outlets less than five weeks after the start of the trial. Moreover, a couple of weeks later, sales were going so well that Starbucks extended the availability of Moon Cheese until the end of 2015.

Then in October of last year, Starbucks confirmed that it was going to expand the distribution of the all-natural cheese snack from 3,400 to 7,500 **corporate stores** and that it intended to extend the availability of the product into calendar year 2016.

CORPORATE STORES

Starbucks basically has three types of stores:

- a) corporate stores, which can have a drive thru or be a complete walk-in store;
- b) licensed stores, which are like corporate stores, but they are usually located inside another store such as Kroger or Target. In addition, they have a slightly different foods and drinks selection; and lastly
- c) "We Proudly Brew" stores, which are located inside hotels, colleges, business, etc. These are not licensed stores and usually only serve Starbucks' basic coffees.

Less than a month later, the large coffee chain announced that it will start distributing the 100% all-natural cheese snacks to its 1,400 corporate stores in Canada as well.

Sales of the cheese snack continues to outperform at Starbucks. They have even exceeded the forecasted buy plan by as much as 30%.

CHEESE SNACKS AROUND THE WORLD

It is evident by the rapidly increasing number of stores in which Moon Cheese is available that North America loves the cheese snacks. Other food companies worldwide are sensing an opportunity and have closed agreements with EnWave to produce similar dried cheese snacks.

In July 2015, for example, EnWave signed a royalty-bearing commercial license agreement with **Lake Blue Spa**, a Chilean food processing company. The license grants Lake Blue the exclusive right to use EnWave's REV technology for the production of dried cheese products in Chile, South America.

Lake Blue has submitted a purchase order, and immediately paid a deposit, for a small commercial REV machine. In addition, Lake Blue has agreed to pay a 5% royalty to EnWave on the wholesale value of the dried cheese products they sell.

Lake Blue plans to build a market for several dried cheese products and if successful, purchase a large commercial REV unit within the next 18 months. Moreover, it plans to pursue other REV-dried product opportunities, such as dried fruit and vegetable products.

What makes this deal very attractive is that Lake Blue is an experienced company with over 60 years of dairy and meat production history in Chile. A company that has been around for that long, usually has a vast network of contacts and distributors to make a product succeed. First production is expected in the Spring 2016.

Also, early August 2015, EnWave landed its first partnership in Europe. **Dominant Slice Lda**, a Portuguese snack company, received an exclusive license that allows it to produce and sell dried cheese snacks in Portugal and Spain using EnWave's patented REV dehydration technology. Dominant Slice has an extensive distribution network in the Spanish and Portuguese markets.

In return for the license, Dominant Slice bought a 10kW commercial-scale nutraREV machine, which is scheduled to be installed at its Portuguese facilities early 2016. Also in this case, the company will pay EnWave a 5% royalty on all products sold that are processed using REV technology.

Moreover, within 18 months of signing the agreement, the Portuguese snack firm must purchase additional REV machines in order to retain its exclusive license for Spain and Portugal. This again indicates that EnWave's negotiating position is becoming stronger. In earlier agreements, EnWave would never have been able to include such terms. But now, with more contracts signed, and many more in the pipeline, the pressure on food and biotech companies is increasing to close a deal before a competitor snatches away the exclusive rights for a certain country.

Lastly, **Agricola Industrial La Lydia SA** has signed a license to produce cheese products in Costa Rica. They have purchased a 10kW nutraREV machine for production to begin in the Spring of 2016 and must purchase a 100kW unit within twelve months of the start-up of the 10kW unit.



Part of the La Lydia pineapple plantation in Costa Rica.

La Lydia is family-owned and was founded over 70 years ago. It currently cultivates about 700 hectares of agricultural land and is a leading milk producer in Costa Rica. Its fruit is exported to many international markets in

the American and European continent. In addition, management members of La Lydia also lead one of the largest dairy co-operatives in Central America.

La Lydia is EnWave's sixth commercial license for dried cheese snacks:

- ❑ NutraDried LLP for the United States;
- ❑ Umland LLC for high kosher products in the United States. Production and distribution of the snacks are scheduled to commence soon;
- ❑ Gay Lea Foods for Canada. First royalties from this deal are expected in 2016;
- ❑ Lake Blue Spa for Chile. First production is expected early 2016;
- ❑ Dominant Slice for Portugal and Spain. Also in this case first production is expected early 2016; and
- ❑ Agricola Industrial La Lydia SA for Central America. They will receive a 10kW nutraREV unit for initial production and plan to expand their business in 2016.

Finally, market tests have started at retail chains in Japan and Taiwan for the Moon Cheese product. If the outcome of the tests is successful, distribution will be increased and larger purchase orders will be placed to NutraDried.

We're convinced more cheese snack agreements for other territories will be signed, as the snacks are an obvious success and food companies worldwide are eager to launch new innovative products.

RECENT EVENTS

EnWave Strengthens Its Position in Dried Fruits Market

Past November, EnWave signed a technology evaluation agreement with Nature's Touch Frozen Foods, one of the major players in North America's frozen fruits market.

Nature's Touch, based in Quebec, Canada, is in fact the private label frozen fruits supplier of all major grocery chains in Canada. It's also

in rapid growth mode in the U.S., where it's well known as the private label frozen fruits producer for Welch's. Also in countries such as the United Kingdom, Australia, Japan and Taiwan, the company has established a significant presence.

Nature's Touch will evaluate the merits of EnWave's Radiant Energy Vacuum (REV) dehydration technology for the purpose of producing high quality dehydrofrozen fruit products. In return, Nature's Touch has paid EnWave an upfront fee.



Welch's Frozen Fruit is one of the private label customers on Nature's Touch.

Very interesting is that Nature's Touch only has a six months option to exclusively license EnWave's REV technology to produce DHF fruit products. We presume that both companies are confident that tests can be completed within that timeframe.

All of the test and development work will be conducted at EnWave's facility in British Columbia. We suspect this to become a success, as EnWave already has gained lots of experience in the dehydrofrozen field with Bonduelle.

Similar to Bonduelle, Nature's Touch aims to establish their dehydrofrozen fruits as the premium option in the global frozen fruits industry. As such, it will be able to significantly distinguish itself even more from its competitors.

Dehydrofrozen vegetables are partially dehydrated and then quickly frozen. The purpose of this process is to retain nutritional

content, color, flavor and most importantly texture when cooked from the frozen state. DHF vegetables can yield product qualities that are similar to fresh product. The lower moisture levels inherent of DHF products reduce the amount of 'weeping' that typically occurs when cooking frozen vegetables. Additionally, the reduced water content of DHF product can decrease shipping costs through lower product weight.

The growing list of fruit processors with whom EnWave has signed an evaluation or commercial agreement is a clear indication that this is a strong market segment for the Company's applications.

EnWave has signed a technology evaluation agreement with the following companies.

- ❑ **Ocean Spray Cranberries Inc.** is an agricultural cooperative owned by more than 700 cranberry growers in North America. The company is very actively testing market dried cranberries. A commercial license may be signed in 2016.
- ❑ **Sun-Maid Growers of California** is a cooperative, owned by family farmers who grow raisin grapes all located within 100 miles of each other in the Great Central Valley of California. The cooperative is doing specific product development work at the moment.
- ❑ **California Grape Co** is a California based grape producer that has the right to evaluate EnWave's REV technology to develop dehydrated crispy grape snacks. Intensified test work is ongoing. In fact, a commercial decision could be made early 2016.

In addition, EnWave has a royalty-bearing commercial license in place with these two fruit related companies:

- ❑ **Natural Nutrition Limited**, a fruit processor located in the South American country of Chile. Initial production is going well and they're actively looking for larger customers to justify purchasing additional REV machinery.

- ❑ **Milne Fruit Products** entered the REV-dried fruits market a couple of years ago positioning MicroDried products as pure, healthy alternatives to sugar-infused offerings. After an extensive product and market development effort, Milne's MicroDried products have been gaining traction with a growing network of customers. As a matter of fact, the Washington based food processor has recently ramped up its production to satisfy significant orders from several major food companies.

With Nature's Touch, EnWave again attracted a major company to test the merits of its revolutionary REV technology. Investors mostly neglected the event, which is odd as a technology evaluation agreement is always the first step towards potentially signing a commercial contract.

Meat Snack Producers Become Another Pillar Of EnWave's Success

Also in November 2015, EnWave and Jack Link's, the number one meat snack manufacturer worldwide, extended their technology evaluation and license option agreement into 2016. That should give the Minong, Wisconsin leader in the meat snack category enough time to evaluate the commercial viability of its new products.

For two reasons we assume that Jack Link's has already made very good progress with the development of one or more products. First, the meat snack company pays a monthly rent for a small test dryer. If it saw no potential in REV dried products, it would have returned the test unit to EnWave and moved on. And second, if EnWave noticed little progress between August 2014, when the original agreement was signed, and now, it also would have moved on.

Meat, next to dairy, fruits and vegetables, is clearly becoming another pillar of EnWave's success. The Company currently has four major meat and protein processors engaged in technology evaluation relationships and one

multi-billion dollar revenue company that has signed a royalty-bearing commercial license to produce dried meat snack products in the United States of America.

In addition to Jack Link's, EnWave has signed a technology evaluation agreement with the following companies.

- ▣ **Maple Leaf Foods Inc.**, a major Canadian food processing company that employs approximately 12,000 people and exports to more than 20 global markets including the US and Asia. The agreement, which was signed in August 2015, grants Maple Leaf the right to evaluate EnWave's REV technology for the potential production of a variety of food applications.
- ▣ **Campofrio Food Group**, Europe's leader in the processed meats sector is conducting product development work using the REV dehydration technology. The company intends to create a number of new, healthy dried meat products for potential commercialization.
- ▣ **Perdue Farms Inc.**, a leading food and agricultural products company, is also evaluating EnWave's technology. If the results are positive, Perdue has the option to license the use of REV, on an exclusive basis, in the U.S. for a variety of food applications.

And EnWave has a royalty-bearing commercial license in place with the next company.

- ▣ **Hormel Foods Corporation**, the \$15 billion dollar company known for its numerous meat and food products, has recently launched Spam Snacks, dried, bite-sized flavored pieces of the iconic canned meat. The snacks are available at Wal-Mart on the West coast, the Southeast, and Hawaii. Although the new product has only been on the market for a few weeks, it already received numerous favorable reviews.

Jack Link's, which offers more than 100

premium meat snack products at retail outlets in more than 40 countries, is obviously another major potential customer for EnWave. Because it opted to continue the evaluation process of REV technology, we believe there's a valid possibility that the two companies sign a commercial license agreement somewhere in 2016.

NutraDried Expands Into \$8.3 Billion Energy & Nutrition Market

After successfully introducing Moon Cheese in North America, and securing an exclusive distribution agreement for the snacks with Spire Enterprises Inc., NutraDried wants to expand its product portfolio of healthy dried snack products.

In order to do so, EnWave and NutraDried signed a Technology Evaluation and License Option Agreement, that grants the latter the right to develop various protein matrix products, such as sports nutrients, protein bars, complete meal replacement snacks, and dietary products. Upon signing, NutraDried paid EnWave a fee.



Cereal/granola bars and energy/nutrition bars form an \$8.3 billion market.

We can't help feeling that this deal will rapidly evolve. Especially because it was immediately mentioned in the press release that if commercial protein matrix products were developed by NutraDried, that Spire Enterprises would become the distributor in the United States. In our opinion, the first REV dried protein bars and nutrients could see

the light of day in a few months. Moreover, we wouldn't be surprised if Spire already had an end customer in mind for the new products.

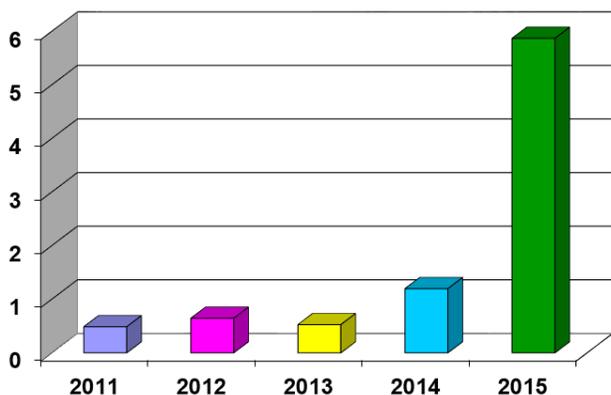
Nutrition and energy bars are part of a broad cultural shift towards healthier food products, as they fit right in a busy lifestyle. Instead of eating three meals a day at set times, these snacks are ideal to eat throughout the day at home or on the go.

A recent Packaged Facts report estimates the market size for cereal/granola bars and energy/nutrition bars in 2016 at USD\$8.3 billion, for a compound annual growth rate of 7.5% over the five-year 2012 to 2016 period.

The added value of EnWave's REV technology is that the dried fruits and nuts retain their flavor, color and nutrient concentration. In addition, REV heightens the efficacy of the proteins. It goes without saying that these are highly sought after qualities for food ingredients.

FINANCIALS

Revenue for the year ended September 30, 2015 was \$5,868,000 a 390% increase over revenue earned in the year ended September 30, 2014.



EnWave's annual sales (excluding Binder) in millions of CAD for the past five fiscal years. (Source: Company Filings)

Looking at where revenue exactly comes from, EnWave can be divided into two segments, EnWave Canada, which comprises

all the royalties, commissions and licensing fees and EnWave USA, which relates to NutraDried LLC sales.

EnWave Canada had revenue of \$3,273,000 for the year ended September 30, 2015 compared to \$977,000 in 2014. The increase in revenue of \$2,296,000 is largely due to the sale of a largescale commercial nutraREV machine to Hormel Foods and revenue generated from commercial equipment contracts with Sutro Biopharma and Merck for powderREV and freezeREV, respectively.

Amounts in \$000's	09/30/15	09/30/14
Net Sales	5,868	1,198
Cost of Goods Sold	4,689	462
Gross Profit (Loss)	1,179	736
Expenses	6,172	5,770
Net (Loss)	(4,993)	(5,034)
Diluted Shares Outs.	84,465	82,763
Diluted EPS	(0.06)	(0.06)

Most important income statement data for the fiscal years ending September 30, 2015 and September 30, 2014. Source: Company Filings

Many more machine sales are in the pipeline the following quarters. In addition, when current partners, such as Hormel and Bonduelle, start generating meaningful sales, royalties will significantly increase as well. In fiscal year 2015, royalties were about C\$149,000.

Revenue from NutraDried for the year ended September 30, 2015 were \$2,595,000 compared to \$221,000 in 2014. The growth in revenue is attributable to increased sales and distribution activity with distributors and retail customers of Moon Cheese. A significant portion of sales growth is due to NutraDried selling to Starbucks that purchased Moon Cheese for 3,400 of its corporate stores in the third and fourth quarters of 2015. In November 2015 this major global coffee chain began purchasing product for all its 7,500 corporate stores in the United States and 1,400 corporate stores in Canada.

With the number of Starbucks stores more than doubling, and increased distribution in other chains, we wouldn't be surprised at all if

NutraDried generates \$5 to \$6 million in sales in fiscal year 2016.

Note that all numbers in the table above are from continuing operations. It does not include the numbers generated by Binder Maschinenbau as it filed for insolvency on September 29, 2015. Including Binder, revenues were \$10,539,000 and \$3,356,000 for fiscal years 2015 and 2014 respectively and net loss was \$9,317,000 and \$6,990,000 for fiscal years 2015 and 2014 respectively.

Balance Sheet As Of September 30, 2015

On September 30, 2015, EnWave had a little over \$1 million in cash. However, in October 2015, the Company completed a bought deal private placement to raise \$5 million.

The response to the private placement was very positive. In fact, Cormark Securities, that managed the deal, had committed to only buy 5 million units at \$0.80 per unit for gross proceeds to EnWave of \$4 million. But because demand was high, Cormark exercised its option to buy an additional 1.25 million units for gross proceeds of \$1 million. According to our information, Cormark could have placed even more.

The Company's entire executive management team, several new investors, and existing institutional shareholders, including a European fund and a household name Canadian institution, participated in the financing.

The net proceeds of the offering will mostly be used for machine fabrications. Based on the impressive list of machine purchase orders that EnWave received in recent months and its pipeline of potential sales, more capital was needed to buy equipment and parts. In preparation for the buildup in expected machine orders and installations, two more engineers were recently hired.

EnWave now has about \$6 million in the bank. In addition, the Company may receive \$1.4 million, which is currently tied up as collateral in regards to the completion of a machine by

its former subsidiary Hans Binder. When the machine is successfully commissioned, part, or whole, of these funds will be returned to EnWave.

Amounts in \$000's	09/30/15	09/30/14
Cash and Cash Eq.	1,101	5,851
Restricted Cash	1,530	971
Accounts Receivable	1,025	1,661
Inventories	1,024	1,243
Total Current Assets	6,075	10,642
Plant and Equipment	3,808	2,877
Total Assets	12,939	21,932
Trade and Other Payables	1,332	1,680
Total Current Liabilities	3,031	4,360
Total Liabilities	3,628	5,496
Total Stockholder Equity	9,311	16,437
Most important balance sheet data for the periods ending September 30, 2015 and September 30, 2014. Source: Company Filings		

Furthermore, the Company's current ratio is 2.00 and it has less than \$0.6 million in long term debt.

OUTLOOK & VALUATION

In the past, food processing companies had to choose between minimizing their drying costs or producing premium dried products. Thanks to EnWave's REV technology, companies no longer have to choose, as they're able to produce high-value dried products at a much lower cost. The main goals of using REV technology are to shorten processing times, reduce operational costs and to produce higher-value products than previously achievable via alternative processing technologies with similar economics.

As EnWave's unique dehydration technology is becoming widely known, companies recognize its potential. The food industry is extremely competitive and producers are constantly looking to make the difference. For the first time in many years a brand new dehydration technology has entered the market, which is faster and cheaper than freeze drying, and has better end product quality than air drying or spray drying.

More and more food and biopharmaceutical companies are realizing that REV is the way to go if they want to stay one step ahead of the competition. Because of EnWave's business model, in which territorial exclusivity is granted, it's a matter of signing an agreement first before a competitor snatches away the rights for a certain country or product.

The Company is also expanding internationally. The first commercial license in Europe is an important step, as EnWave can now leverage this relationship, and the upcoming commercial start-up, to encourage further European adoption of the technology.

In the coming months several companies, such as Bonduelle, Gay Lea Foods, and Umland, will initiate commercial sales with REV manufactured products. This will obviously have a positive effect on EnWave's royalty income.

In addition, Moon Cheese may very well become the first blockbuster product for EnWave. The large amount of reorders and the extension of the availability of the snacks at Starbucks, indicate that Moon Cheese is wanted by consumers.

The Company currently has about \$6 million in the bank. On top of that, it may receive \$1.4 million, which is currently tied up as collateral.

EnWave is clearly at the end of its de-risking cycle. It has a proven technology that's unlike anything in the industry. There's an enormous market potential in the food and biopharmaceutical spaces for its REV dryers. And it now has enough cash to support its growth.

The growing number of operational REV machines will increase EnWave's royalty income. And with each additional unit installed, the Company edges closer to becoming cash flow and net income positive.

The beauty of it all is that currently everyone can purchase shares of EnWave at \$0.70, which is lower than the price management paid in the past private placement. We advise

you to benefit from this occasion. From now on it's onwards and upwards.

Valuation

EnWave's technology works and is validated by many commercial agreements. The dehydration market is large and spread over many different sectors.

Given the still emerging nature of EnWave's earnings, a multiple-based valuation is challenging. Instead, we apply a Discounted Cash Flow (DCF) model.

Based on our estimate of 98 million shares outstanding, the intrinsic value of EnWave's shares derived from our model is \$3.21, about equal compared to our previous report.

We reiterate our buy recommendation for EnWave Corp. with a price target of \$3.21, which is 358% above today's stock price.

This intrinsic value suggests significant appreciation potential for EnWave's shares from the current price over the medium-term.

The Company's share price and volume don't reflect the progress the Company has made during the past year. We believe it's a matter of time before the market realizes what a bargain it truly is.

SHARE DATA & OWNERSHIP

As of December 17, 2015, EnWave had approximately 90.8 million common shares outstanding. In addition, the Company has 2.1 million warrants outstanding with an exercise price of \$1.75 and 0.2 million broker warrants with an exercise price of \$1.20. Each warrant entitles the holder to purchase one common share of the Company until October 22, 2020 and October 22, 2017 respectively. Finally, EnWave has close to 5.1 million stock options outstanding with a weighted average exercise price of \$1.45. Each stock option entitles its holder to purchase one common share of the Company.

The principal owners of the Company's common stock are DJE Investment (7.79%), and Petercam S.A. (0.08%).

MANAGEMENT

▣ DR. TIM DURANCE - PRESIDENT & CEO, DIRECTOR

One of the founders of EnWave, Dr. Durance has 35+ years' experience in the processed food industry and is the co-inventor of the Company's REV technology.

Dr. Durance received his Ph.D. and M.Sc. in Food Science from UBC, as well as a B.Sc. in Microbiology from the University of Guelph and a B.A. in Anthropology from the University of Waterloo. He's the author of more than 75 peer-reviewed scientific publications, 16 patents, and numerous book chapters, scientific presentations, and invited lectures on technology and food processing.

As EnWave's President & Co, his responsibilities include research and development related to all of the REV technologies, as well as ongoing intellectual property development.

▣ MR. JOHN P.A. BUDRESKI - EXECUTIVE CHAIRMAN

Mr. Budreski has over 30 years of extensive capital markets and executive management experience. He was formerly a Vice Chairman of Cormark Securities Inc. from 2009 to 2012 and President and CEO of Orion Securities Inc. from 2005 to 2007, prior to its successful sale to Macquarie Bank. He has filled the roles of a Managing Director of Equity Capital Markets and Head of Investment Banking for Scotia Capital Inc. from March 1998 to February 2005 after starting out as a Managing Director of US Institutional Equity Group for Scotia Capital. He also held senior roles in investment banking and equity sales and trading for RBC Dominion Securities.

▣ MR. DANIEL HENRIQUES – CFO

Mr. Henriques is a Chartered Accountant and brings extensive experience in finance effectiveness and financial reporting to his role at EnWave. Prior to joining EnWave, Mr. Henriques was a manager in the Assurance group at PricewaterhouseCoopers LLP, and supported numerous mid-market companies, including companies listed on the Toronto Stock Exchange, TSX Venture Exchange and the New York Stock Exchange, with financial reporting and compliance. While at PwC, Mr. Henriques provided clients in the manufacturing and technology sectors professional services in the areas of financial audits, financial reporting and tax.

ANNUAL INCOME STATEMENT FY 2012 – FY 2015

All numbers in thousands

PERIOD ENDING	FY 2012	FY 2013	FY 2014	FY 2015*
Total Revenue	487	5,448	4,554	5,868
Cost of Revenue	971	3,796	3,976	4,689
Gross Profit (Loss)	(484)	1,652	578	1,179
Expenses				
Administrative	916	1,994	2,117	2,089
Sales & Marketing	425	979	1,165	719
R&D	2,542	2,675	1,591	1,386
Amortization Intangible Assets	1,147	1,905	1,432	1,420
Stock-based Compensation	915	1,118	608	261
Net Loss Applicable To Common Shares	\$6,770	\$7,772	\$6,706	\$4,993

Annual Income Statement FY 2012 – FY 2015. Source: Company Filings

* Note that in the Fiscal Year 2015 column all revenues and expenses generated by Hans Binder Maschinenbau before its insolvency on September 29, 2015, have been excluded.



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