

**Transcript of update interview with  
Mr. Brent Charleton, CFA**



**Senior Vice President of Sales and Business  
Development at EnWave Corp.**



**TSX Venture Exchange: ENW**

**December 2, 2017**

**Mr. Brent Charleton - Senior Vice President Sales and Business Development.** Mr. Charleton has extensive experience working in competitive team-based environments in the public, private and not-for-profit sectors. He has managed the marketing, investor relations and corporate affairs mandates for EnWave Corporation since 2010. Brent, an ex-professional athlete, is a graduate of the Marketing Management program at the British Columbia Institute of Technology and has earned a Bachelor of Arts degree in Criminology and Communications from Simon Fraser University. Mr. Charleton has completed the Canadian Securities Course and is a holder of the right to use the Chartered Financial Analyst designation.

**Smallcaps Investment Research: A warm welcome everyone to a new interview on Smallcaps Investment Research. We're very pleased to have Mr. Brent Charleton, the Senior Vice President of Sales and Business Development at EnWave Corporation with us today. The Company offers industrial-scale dehydration technologies for commercial applications in the food and pharmaceutical sectors. EnWave is listed on the TSX Venture Exchange with ticker symbol ENW. Brent thanks so much for taking the time to join us today. Welcome.**

Brent Charleton: Thank you very much.

**Brent, since our previous interview, lots of exciting developments have taken place at EnWave. Let's go over some of them, and let us also look forward to 2018. A recent, and very interesting, opportunity taking place at EnWave is an agreement with a major Canadian cannabis player. Would you give some color on this deal and also tell us what the merits are of EnWave's technology in the cannabis sector?**

We are extremely excited about the potential of deploying multiple REV machines to service the Canadian medicinal cannabis sector. This is mainly thanks to our technology, which performs better than the present industry standard.

It currently takes multiple days to perform dehydration and pasteurization of cannabis. Through our research and development that we have conducted with a licensed producer, we are able to take this process down to few hours, sometimes just over one hour. This

obviously creates significant value for the producers.

Furthermore, we expect to benefit from the legislation connected to the production of recreational cannabis, which is likely to be passed mid-2018.

EnWave will be able to benefit from these developments through licensing. The way we have structured the first deal with this licensed producer is based on a weight production royalty. For every one gram there is a royalty fee that is charged and paid to EnWave. What is unique to this specific license is the sub-licensing component. The first licensed producer has the right to create sub-licenses to other companies within Canada. This means that we may not only receive our baseline royalty, but potentially enhance our revenue through the sub-licensing royalty as well.

**Well, that's terrific. And what's the outlook like in terms of machine sales and potential royalties for EnWave in this industry?**

What we confirmed so far is that we have sold a single 10kW unit and a 60kW continuous line, to the aforementioned licensed producer.

However, knowing that there are about 40 licensed producers in Canada, we believe there is potential to sell multiple large-scale and small-scale units. So if EnWave's technology becomes the industry standard, then obviously that means many more machine sales in the future.

**Let's also take a look at NutraDried, in which EnWave holds a 51% stake. Since**

**this company was reorganized, early 2017, it has made significant progress. Can you update us on its developments since the reorganisation?**

The main takeaway from the reorganisation of NutraDried is that revenue, stability and distribution, the three important Key Performance Indicators (KPIs) that we track, have all improved.

We will share the latest progress in that area in the upcoming annual financial report that we expect to publish in mid to late December.

**That is where NutraDried stands today. What can we expect from it in the new year?**

We are targeting to reach over \$10 million in top-line revenue for 2018. We are also hoping to solidify several unique co-manufacturing relationships to place the Moon Cheese products in combination with other snacking goods. This could, for example, be with a dried meats company.

We are also evaluating the potential of launching snack pack mixes to expand NutraDried's product portfolio. An example here could be a pack where dried mozzarella cheese is mixed with a dried tomato and basil combo.

**As of this month, Moon Cheese is available in approximately 70 Costco stores in the Midwest of the United States. They are available in a brand new ten-ounce package format and retail for about \$10. This is contrary to the regular two-ounce packages, which retail for about \$4 to \$5 dollars. Can you compare the margins of both the ten and two-ounce packages? And also, will the lower price setting of the Costco packs have an influence on the regular packs?**

We do not think the price change is going to affect the average margin for NutraDried. This is mainly due to the savings we were able to recognize with the Costco Midwest distribution as opposed to standard grocery

retail distribution. Our gross margin has remained in the 30%-35% range, and recently it even increased to almost 40%.

We also hope that the consumer will recognize the opportunity to buy more Moon Cheese for less money at Costco. If sales go well, this might solidify longer term distribution, not only in the Midwest Costco division, but also at other divisions of Costco throughout the U.S and Canada.

**Some time ago, Bonduelle, the world leader in ready-to-use vegetables, engaged EnWave to double the throughput of its existing 120kW REV machine. Has this process been completed?**

The process is still ongoing. However, the core fundamentals have been proven. In fact, the machine is now operational to produce products for some of Bonduelle's customers.

The final hurdle for us to overcome with the Bonduelle project is to finalize the design of the input and output locks. There is a plan in place to complete this process in the coming months. Once this is done, we can compel Bonduelle to commit to larger scale machinery. There truly is a high level of optimism at Bonduelle for both this project and the InFlavor products.

**That's excellent news. Do you foresee a royalty increase from Bonduelle in 2018?**

Assuming we are successful in finding a solution to the final hurdle, which is an achievable challenge, then we would certainly anticipate that Bonduelle is going to ramp up commercial production. This would lead to a larger royalty for EnWave.

**In the coming months and quarters we should also find out more about EnWave's two pharmaceutical partners Sutro Biopharma and Merck. How are these partnerships evolving?**

With Sutro Biopharma we have so far conducted a pre-factory acceptance test. We then moved forward to factory acceptance

testing, which is currently underway. We are hoping to complete this step before the end of this calendar year. Once finished, we will get a go/no-go decision from Sutro to move the commercial scale REV machine from our Vancouver facilities to their San Francisco facilities for commercial startup in 2018.

With Merck we recently had some very positive results on the scaled-up machine design. We are now looking to finalize the Good Manufacturing Practice (GMP) certification of this machine design. This would trigger the next stages of Merck's project.

To summarize, in both cases the products are moving forward. However, I will reiterate that EnWave has no intentions of deploying additional resources for new pharmaceutical projects until these two are proven in a commercial setting. If this happens, then we certainly will expand our efforts in this vertical.

**During the summer of 2017, we learned that EnWave entered into a contract with the US Army Natick Soldier R&D Center to jointly develop low weight, high quality, nutritious field rations. It's clear this is an enormous opportunity for EnWave, as potentially hundreds of thousands of men and women in active duty could be served Radiant Energy Vacuum dried rations. How is this agreement progressing?**

I love this project! It has obviously tremendous potential and we have seen significant product development activity on both sides. Natick has visited our facilities several times for product development sessions. Initial samples of products were tested internally by focus groups, and the feedback was phenomenal.

Next, we will further develop more products with Natick, while there will be continued testing internally. Hopefully, this leads to us deploying REV machinery to their site in the next three to six months. This would allow them to expedite the product development.

If things progress to the point where the U.S. Armed Forces decide that REV dried products should become available within their organization, then we would work directly with a group of approved suppliers for the U.S. Armed Forces.

We have already been in touch with several of those suppliers. We will continue to build out those relationships, as those are the companies that would likely be the licensees of REV technology for the U.S. Armed Forces.

**Terrific. As for 2018, which existing royalty agreements and Technology Evaluation Agreements (TELOAs) will start earning royalties?**

Our pipeline is robust coming into the new year. To start with cheese products, we have Ashgrove Cheese from Australia, that will be launching commercial product in a few weeks. We also expect ramped up commercial production and distribution in Greece from our partner Kesito, and in Portugal where we partner with Dominant Slice.

We also hope to convert several of our current TELOA dairy partners into commercial licensees, which would mean new machine purchase orders and the start of new royalty streams.

Turning to other products, there are several companies that are starting up their commercial distribution of fruits and vegetables. Pitalia, which used to be called La Lydia, is launching its pineapple and tropical fruit products in the coming year. This is very exciting, as they have purchased a 100kW REV unit for installation in the early 2018. There is also the second largest banana processor in Australia that will start commercial production early in the new year. The list goes on to be honest, our pipeline is robust.

Finally, we are expecting multiple new licenses to be signed in the coming year, alongside other significant TELOAs with market-leading companies.

**Wow! That's very good news, and how many potential machine sales do you see in the pipeline for next year?**

Based on current license agreements that include additional purchase order requirements, and a small amount of new potential license agreements, we are targeting six large-scale REV machines purchase orders and between six to eight smaller 10kW orders.

We could end up exceeding these numbers, but we like to maintain a conservative outlook when providing guidance. Especially since the lead time of some projects can be volatile. However, sometimes the customer surprises us with a quick decision and thus the target can be exceeded.

**And as a final question Brent, how should all of this progress that we discussed, translate in EnWave's financial results next year?**

If we are able to secure the targeted additional purchase orders in a timely fashion, then I expect EnWave to be cash flow positive and profitable. Additional machine orders, above my earlier estimates, would be more fantastic news to our stakeholders.

**Fantastic. Brent, it's been a pleasure speaking with you. Thank you for your time. And I wish all the best to you and EnWave.**

Thanks, I appreciate this opportunity.

## **Interview Feedback**

We welcome your questions and feedback regarding this interview at:

<http://www.smallcaps.us/enwaves-brent-charleton-opens-up-about-exciting-projects-and-plans-for-2018>

Transcripts are edited for clarity.

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