

## EnWave Corporation (ENW)

March 10, 2018

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 both air drying and spray drying.

The Company reported consolidated revenues of \$4.52 million for its first quarter of fiscal year 2018, ended December 31, 2017, compared to \$3.47 million in the same period last year, an impressive 30% increase.

EnWave also continues to be cash flow positive with cash flow from operations of \$315,000 for the first quarter of 2018 compared to a negative cash flow of \$112,000 in the same quarter last year. EnWave has clearly set the stage for an outstanding 2018.

Since the start of fiscal year 2018, the Company has signed three royalty-bearing agreements, entered into three Technology Evaluation And License Option Agreements (TELOAs), received very promising feedback from ongoing research at the US Army Natick R&D Center, and secured additional Moon Cheese orders from Costco where the cheese snack is doing very well.

We reiterate our buy recommendation for EnWave Corp. with a price target of \$3.49, which is 184% above today's stock price.



■ NutraDried's business performance strengthened significantly in fiscal year 2017, and through the first quarter of 2018. We believe that by obtaining 100% equity ownership, the Company will be able to further drive growth in the revenue and profitability from Moon Cheese sales. The Company is targeting to reach sales of over \$10 million in Moon Cheese alone during 2018.

■ While the regulatory regime may vary from one country to another, the superior processing capacity afforded by the REV technology is likely to motivate producers in other jurisdictions to seek a licensing arrangement with EnWave in the emerging legalized cannabis market. Consequently, we expect to see several agreements and orders from the cannabis space in 2018.



## THE COMPANY

EnWave Corporation is a Vancouver-based applied technology Company that works in partnership with food, cannabis, and pharmaceutical companies to develop commercial applications for its proprietary Radiant Energy Vacuum (REV) dehydration technology.

The key to the technology is the vacuum environment in which the drying process takes place. Thanks to the reduced atmospheric pressure, the temperature, at which the moisture is efficiently removed, can be lowered. This reduction of heat and oxidization minimizes the damage inflicted on the REV-dried products, preserving richer flavors, brighter colors and higher nutritional content versus other drying methods.

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.

EnWave'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.

So far, EnWave has signed twenty royalty-bearing licenses, thereby opening up nine distinct market sectors for commercialization. Some of the Company's best-known

customers include Bonduelle, Gay Lea Foods, Ultima Foods (Agropur Dairy Co-operative) and Milne Fruits and Perdue Farms.

EnWave generates revenues from the following sources:

- ▣ REV machine sales and maintenance;
- ▣ Maintenance of the machines to ensure they are running properly and to replace and repair components subject to normal wear and tear from ongoing operations;
- ▣ Royalty streams from partners, which may be a gross payment of 3-5% of sales (paid out quarterly), or a fee per kilogram of net production; and
- ▣ NutraDried, which sells healthy dried cheese snacks.

The Company reported consolidated revenues of \$4.52 million for its first quarter of fiscal year 2018, ended December 31, 2017, compared to \$3.47 million in the same period last year, an impressive 30% increase.

This solid result can mainly be attributed to increased Moon Cheese sales by EnWave's subsidiary NutraDried, which secured a substantial order from Costco in Q1.



**The order from Costco marked the launch of NutraDried's first "Club Pack" size product with a new multi-serving 10oz package (right). On the left the regular 2oz pack.**

The Company also continues to be cash flow positive with cash flow from operations of \$315,000 for the first quarter of 2018 compared to a negative cash flow of \$112,000 in the same quarter last year.

In addition, since the start of fiscal year 2018, the Company has signed three royalty-bearing agreements, entered into three Technology Evaluation and License Option Agreements (TELOAs), received very promising feedback from ongoing research at the US Army Natick R&D Center, and secured additional Moon Cheese orders from Costco where the cheese snack is doing very well.

Since October 1<sup>st</sup>, 2017, EnWave achieved the following milestones:

- Signed a **royalty-bearing license** agreement with Tilray, a major Canadian medical cannabis licensed producer. The license grants Tilray the exclusive right to use and sub-license the Company's dehydration technology to dry and decontaminate cannabis in Canada.
- Signed a **royalty-bearing license** with Howe Foods, the second largest producer of bananas in Australia. Howe Foods purchased a small-scale 10kW REV machine to initiate commercial production.
- Signed a **royalty-bearing license** with AvoLov LLC (formerly AvoChips LLC) a U.S. based snack company to produce a new, and innovative avocado snack product. AvoLov purchased a 10kW small-scale machine to initiate commercial production.
- Achieved a series of positive product development results in partnership with the US Army Natick Soldier R&D Center as part of an ongoing project to create superior, phytonutrient-rich field rations for soldiers in the field.
- Signed a **TELOA** with Hampton Farms, a major American peanut and tree nut processor and manufacturer.
- Signed a **TELOA** with Seven Seas Fish Company Limited, a leading Canadian seafood manufacturer and international distributor.
- Signed a **TELOA** with Calbee Incorporated, the largest snack food manufacturer in Japan. Calbee will evaluate the use of EnWave's technology at its facilities in Japan using lab-scale REV machinery.

Currently, EnWave has 13 active TELOAs and two active R&D projects with prospective

licensees evaluating the use of REV for applications in the dairy, seafood, spice & herb, fruit products, vegetable products, and meat products verticals. Several of the active agreements are with major international processing companies.

The strategy under these arrangements is to co-develop product applications using the technology for specific partner opportunities and to ultimately convert them into commercial licenses. EnWave earns revenue under TELOAs from short-term REV machine rentals as well as fees for access to its R&D facilities and product development expertise. EnWave's food scientists and engineers work with the prospective license company during the TELOA phase of the sales cycle to formulate and optimize innovative products using REV, and develop a path towards commercialization.



**Founded in 1967 in a small fish market in Vancouver, Seven Seas has grown significantly over the years. It now has over 200 employees.**

### NutraDried LLP

NutraDried LLP develops, manufactures, markets and sells 100% all-natural cheese snacks under the Moon Cheese brand. Up until a few weeks ago, EnWave USA Corporation, a 100% daughter of EnWave Corp, held a 51% stake in NutraDried. That changed as EnWave USA, acquired the remaining 49% interest for US \$1,800,000 (CAD \$2,266,000), which was paid out of treasury.

Now that EnWave has full control over NutraDried, additional commercial opportunities using NutraDried's installed 100kW nutraREV processing line will rapidly be pursued. In a few of months NutraDried

will launch a couple of Moon Cheese extension products coined “Moon Cheese Mixems”. For example, different types of cheese will be dried and mixed with a dehydrated tomato. In addition a Moon Cheese salad topper will be launched as an alternative o croutons. These will be distributed through the existing Moon Cheese channels.

NutraDried produces Moon Cheese in cheddar, gouda, mozzarella and pepper jack flavors at its manufacturing facility in Ferndale, Washington, and distributes it in over 20,000 retail locations across Canada and the United States. During the past quarter NutraDried again added several new retailers for distribution of Moon Cheese in the United States and Canada. Notable retail points of distribution include Starbucks, Target, Rite Aid, CVS, Safeway, Loblaws, Save-On-Foods, and most recently, Costco’s Midwest division.

Sales at Costco are going well. NutraDried received additional orders from the Costco Midwest division, and there’s interest from other divisions as well to take the product on. Note that because this is still a rotational item at Costco, there’s no guarantee for longer term distribution yet.

EnWave expects NutraDried to continue contributing positive earnings, revenue growth and cash flow for the Company. NutraDried’s revenues have been increasing each year, reporting \$6,556,000 for fiscal

year 2017, up 30 times in three years from \$221,000 in 2014, its first year of operations.

## TECHNOLOGY

Before EnWave launched its Radiant Energy Vacuum technology, food processing companies were limited to opt for 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).

Thanks to EnWave’s REV dryers, companies, for the first time, can combine the effectiveness of freeze drying with comparable 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.

Four REV platforms have been developed to address specific market opportunities. Three platforms – nutraREV, powderREV and quantaREV - are at a commercial stage, while the fourth one – freezeREV - is under development. Each platform is described in more details below.

	EnWave's REV Technology	Freeze Drying	Air Drying
<b>Better Product</b>	Superior Color Superior Flavor High Nutritional Retention	High Nutritional Retention	Heat & Oxygen Damages Color, Flavor, Nutrients and Texture
<b>Faster Process</b>	Minutes or Hours (1,5 hours for Blueberries)	Hours or Days (24 - 36 hours for Blueberries)	Hours (6 hours for Blueberries)
<b>Cheaper Cost</b>	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
<b>Comparison between EnWave's REV technology, and freeze &amp; air drying.</b>			

### 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. It is EnWave’s most popular technology.

nutraREV machines are available at varying scales: 2kW for product development, 10kW for pilot-scale production and 100kW or higher for commercial production.

A 100kW unit is capable of producing as much as 150 kg (340 lbs) of dried product (below 5% residual moisture) per hour. A 100kW machine sells on average for \$1.5 million and generates between \$200,000 and \$400,000 in royalties per year at full utilization.

**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.

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

The technology 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. 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.

### 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 that must have a minimum moisture content in order to maximize their shelf-life. It is currently available as a multi-vial prototype for partner research and development.

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.

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 lyophilized products.

### Expanding Patent Portfolio

EnWave holds numerous patents that protect both its REV technology and specific methods of use. The past two years, the Company received no less than 43 new patent approvals that protect its technology and processes.

Because the Company's technology continues to be developed, new innovations are made. As such, its intellectual property portfolio continually expands.

**EnWave is driven to innovate and continuously commits resources to strengthen its intellectual property portfolio. Patents are truly the cornerstone for the Company's licensing-royalty business model, because each time a new patent is granted, the royalty stream timeline extends twenty years from the patent's filing date.**

## 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, cannabis and biotechnology are expected to be the fastest growers 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.

## VERSATILE APPLICATIONS

While EnWave's dehydration technology has plenty of applications, it's clearly excelling in a number of distinct sectors.

### Rapidly Expanding Dairy Space

By far the most successful REV dried cheese snack on the market today is Moon Cheese, as it's available at every Starbucks in North America and at thousands of retail stores in Canada and the United States.



**Umland's kosher Crunchy Cheese Bites are available in pepper jack, cheddar, and gouda flavors.**

Attracted by this success, other food companies worldwide sensed an opportunity

and closed commercial agreements with EnWave to produce similar snacks. Typically, EnWave receives a 5% royalty on all cheese snack sales.

The companies below have all signed a commercial agreement with EnWave to produce a REV dried cheese product. It is also stated for which country or region the companies obtained an exclusive license.

- ❑ **NutraDried LLP** for the United States;
- ❑ **Umland LLC** for high kosher products in the United States. Production and distribution of the snacks has commenced and will soon significantly expand;
- ❑ **Gay Lea Foods** for Canada. It started up a 100kW nutraREV machine to expand the production of its 'Nothing But Cheese' snack product. After a somewhat slower start, sales are starting to pick up;
- ❑ **Lake Blue Spa** for Chile. Commercial production of its INTAKT cheese snacks has recently started. The dried cheese products are available in four flavors: Original Gouda, Spicy Gouda, Oregano Gouda, and Mediterranean Mix;
- ❑ **Dominant Slice** for Portugal and Spain. It recently launched a dried cheese product, coined B!t Cheese, and is now building out commercial opportunities for the product line;
- ❑ **Agricola Industrial La Lydia SA (Pitalia)** for Central America. It has received two 10kW nutraREV units and has ordered a 100kW REV machine (also see below);
- ❑ **Ereğli Agrosan** for Turkey. The license actually grants the company the exclusive right to process a variety of fruit, vegetable and cheese products. Ereğli's dried cheese product has entered the market and is being sold B2B in central Asian markets and into Europe;
- ❑ **Kesito LLC** for Greece. A 10kW commercial REV machine was installed late 2016, which allowed Kesito to complete product development and enter the European market with a high-quality, shelf-stable dried cheese snack product under the Air Cheese brand name: and
- ❑ **Ashgrove Cheese** for Tasmania. Ashgrove submitted a purchase order for a 10kW commercial REV machine to initiate production and will be launching snack

products under the brand name 'Amaze Balls' in January 2018. The product will soon go into 1,400 Independent Grocers of Australia (IGA) supermarkets in Australia. In June/July an even broader market launch is planned down under.



**We expect a boom in cannabis-related machinery sales, as EnWave's technology can substantially reduce costs for producers.**

Next to the above agreements for REV dried cheese snacks, EnWave also signed its first commercial royalty-bearing license for yogurt products.

▣ **Ultima Foods (Agropur Dairy Cooperative)**, a major Canadian yogurt processor which produces more than 100 million kilos (220 million lbs) of fresh dairy products each year has agreed to purchase a 10kW commercial REV machine to enable a focused market trial in early 2018. Subject to maintaining the exclusivity of the license, Ultima is also required to order a larger, continuous REV machine before the end of 2018.

### EnWave Excels In Dried Fruits Market

A growing number of fruit processors have signed either an evaluation or commercial agreement with EnWave, indicating that this is another strong market segment for the Company's applications.

EnWave has a royalty-bearing commercial license with, among others, these fruit related companies:

- ▣ **Milne Fruit Products** entered the REV-dried fruits market a couple of years ago, positioning MicroDried products - all-natural fruit pieces and powders - as pure, healthy alternatives to sugar-infused offerings. Milne Fruit is one of EnWave's largest customers. In fact, more than 50 consumer products on the market today already use its ingredients;
- ▣ **Natural Nutrition Limited d.b.a. Nanuva Ingredients**, a Chilean fruit processor, that has positioned itself as a leading provider of 100% natural (with no additives) dried fruits with colours, shapes, flavors and nutrients very similar to those of fresh fruit. These healthy ingredients are used in the snack food, functional food, nutraceutical and cosmetics industry;
- ▣ Next to dried cheese (see above), **Agricola Industrial La Lydia (Pitalia)** is also very active in the dried fruits space. In fact, La Lydia is a global leader in producing and exporting golden pineapples under the brands YAZ and SWITI. La Lydia formed a new business entity coined Pitalia specifically for the production of REV dried products. In 2018, Pitalia aims to start selling pineapple, apple, mango and banana snack products through its Pure Joy brand in the European and South, Central and North American markets; and
- ▣ **Van Dyk Specialty Products Ltd.**, a major Canadian producer of wild blueberry products, that is best known for its highly successful blueberry juice, is focused on providing the market with high-quality REV dried blueberry products.
- ▣ **AvoLov LLC (formerly AvoChips LLC)**, a U.S. based processor that has developed an innovative new avocado snack product using REV technology. AvoChips submitted a purchase order to obtain a 10kW commercial-scale REV machine to initiate production. The license grants AvoChips the exclusive global rights to use the REV technology to process the snack product.
- ▣ **Howe Farming Group**, one of Australia's largest and most diverse farming enterprises. The license grants Howe Farming the exclusive right to use the

Company's REV dehydration technology to produce dried banana products in Australia and the non-exclusive right to produce dried blueberry products in Australia.

- ❑ **Bare Foods** is currently known for its line of dried snack chips made from slices of apples, coconuts, and bananas. This family of snack foods, marketed under the "Bare Snacks" brand name is baked and therefore represents a healthier alternative to many other fried snack food choices. Since March 2017, extensive test work was conducted at EnWave's facilities in Vancouver. Early 2018, Bare decided to move ahead with the purchase of a 10kW REV machine.

## Growing in Important Vegetable Sector

In January 2016, **Bonduelle**, the world's leading processed vegetable producer launched a new category of frozen vegetables called InFlavor. The new exclusive InFlavor dehydration and preparation process uses EnWave's vacuum-microwave drying technology.

The REV technology truly separates InFlavor from all other frozen vegetables as the texture and taste of the vegetables is retained.

Bonduelle first launched InFlavor to its B2B customers in North America. In addition, it also has an eye on the European market, so this could potentially be a very exciting evolution. In fact, Bonduelle contracted EnWave to double the production capacity of its existing 120kW dryer. This process is ongoing, but should be finish shortly. Consequently, Bonduelle's commercial production, as well as its royalty payments to EnWave, are expected to go up in 2018.

In 2017, **Merom Farms**, an agricultural and food production company, announced that it is going to start selling wasabi-based products in Canada and the United States.

The dried, powdered and encapsulated wasabi is specifically designed for the natural health supplement market and will soon be available under the "Your Wasabi" brand name.

Your Wasabi holds the ONLY license issued by Health Canada to produce wasabi capsules in Canada.

## Meat Snack Producers - Another Opportunity for EnWave Success

In addition to dairy, fruits and vegetables, meat is another opportunity for success.

The intention of most of these meat companies is to develop crispy meat snacks. Similar snacks are already being produced, but the texture and taste of most meat chips is poor because they are either air dried or baked.

In the meat category, EnWave has signed royalty-bearing agreements with:

- ❑ **Perdue Farms**, a leading food and agricultural products company, ordered a 10kW REV dryer in July 2016 to process pet food and pet treats in the United States and Canada.

Moreover, EnWave has engaged in technology evaluation relationships with several other major meat and protein processors such as:

- ❑ **Jack Link's**, the number one meat snack manufacturer worldwide;
- ❑ **A U.S. based leader in the meat and prepared food industries.** The name of the partner company wasn't disclosed, but when we do an online search for "American meat and prepared food leader" the recurring names are Smithfield Foods, JBS USA, and Tyson Foods. All multi-billion-dollar companies;
- ❑ Another **major European meat processor** started conducting product development trials at EnWave's facilities in February 2017. After a thorough evaluation of the end products, signing a commercial license may be the next step; and
- ❑ A **major Australasian meat processor** that has been developing several new meat snack products since early 2017.

EnWave is in active negotiations with many more companies in this sector in various parts of the world. So we'll undoubtedly continue to

see more news with developments in the meat area.

## Cannabis Application

Late August 2017, EnWave filed a new patent application for the simultaneous pasteurization and drying of cannabis using REV technology. These patent-pending methods expand the application of EnWave's REV technology to the booming medical and recreational cannabis sector.

Two months later, EnWave signed a royalty bearing agreement with Tilray, a major Canadian cannabis player with international presence. Tilray is an Authorized Licensed Producer as defined by Health Canada's Access to Cannabis for Medical Purposes Regulations (ACMPR).

The license grants the cannabis grower the exclusive right to use the Company's proprietary Radiant Energy Vacuum (REV) dehydration technology to dry and decontaminate cannabis in Canada.

In return for the exclusivity, the producer has purchased a small-scale 10kW commercial REV unit to enable advanced product development along with a large-scale 60kW commercial REV machine that will be used to initiate commercial production. The 10kW dryer was recently installed, while the 60kW unit is scheduled to be commissioned in May, 2018.

Furthermore, the cannabis producer is required to achieve certain minimum royalty thresholds, and to purchase additional REV machinery in order to maintain its exclusivity. It is worth noting that the producer is projected to achieve a production capacity greater than 74 metric tons in 2018. The 60kW machine however, can only process approximately 25 to 30 tons annually, which means that it will need to buy at least one additional 60kW REV machine.

Moreover, the Licensed Producer must also pay royalties based on the amount of cannabis processed with EnWave's REV equipment. Royalties in the cannabis space could be up to three times higher than what

EnWave receives from companies that are active in the food sector.

Late February 2018, EnWave announced further progress on its partnership with Tilray. In June 2016, Tilray became the first North American producer of cannabis to legally export into the European market. The company subsequently was granted a cultivation license to produce cannabis in Portugal, with a distribution channel to several countries in the EU. Logically, Tilray has expanded on its Canadian license agreement with EnWave, to also enable REV processing of cannabis in Portugal to serve the European market. This is an important milestone for EnWave as it represents the first time its REV machines will be engaged in processing cannabis outside of the Canadian market.



**Tilray offers a broad-based product line of medicinal cannabis oils and extracts.**

## The Seafood Category

Late 2016, EnWave opened another category as it signed a TELOA with **Born Wild LLC**, a seafood processor located in the United States. Born Wild serves the global seafood market with processing capabilities and sourcing from Alaska, through Canada, Washington, Oregon, and northern California. It is led by several individuals with vast seafood processing experience.

Born Wild collaborates with EnWave's product development team at the Company's pilot plant facility to develop several unique

seafood snack products for human consumption. Noteworthy is that EnWave's food science group has already conducted quite a lot of product development work in the dried seafood snack space. A commercial decision is expected from Born Wild in the first half of 2018.

Early 2018, **Seven Seas**, a distributor of a full range of seafood products, partnered with EnWave to develop new premium seafood-based products. EnWave's REV technology enables an entirely new method of processing different types of seafood, including salmon, scallops, and oysters. Seven Seas is also considering a variety of different applications, such as salmon snack products, potentially with various other ingredients to give different flavor profiles. Yet other possibilities to develop are salmon jerky style products.

The TELOA involves renting a 10kW REV machine, which will be used by Seven Seas to continue with testing and product development. The objective is to advance processing techniques while completing marketing studies. If successful, Seven Seas will most likely enter into a commercial license agreement with EnWave.

## Pharmaceutical Dehydration Technology

A final pillar of EnWave's success is pharmaceutical applications. The commercialization of the powderREV and freezeREV technology platforms continues to progress for its two pharmaceutical partners Merck and Sutro Biopharma.

The powderREV machine for **Sutro Biopharma**, a pharmaceutical company based in San Francisco, is scheduled to be finished first. EnWave recently successfully conducted a pre-factory acceptance test. A factory acceptance test is currently ongoing. Once finished, this should trigger a go/no-go decision from Sutro to move the commercial scale REV machine from EnWave's Vancouver facilities to Sutro's San Francisco facilities for commercial startup in 2018.

If this REV machine is successful with the production of Sutro's products, the company will immediately go into commercial

production, as its ingredient does not require FDA approval. In that scenario, Sutro Biopharma would pay EnWave a royalty based on the production of its pharmaceutical ingredient.



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

In December 2011, EnWave signed a 10-year Research and Development agreement with **Merck**, one of the world's leading pharmaceutical, chemical and life science companies, in which Merck bears the costs associated with this process.

Test results with a scaled-up freezeREV machine have been very encouraging. EnWave is now looking to finalize the **Good Manufacturing Practice (GMP)** certification of this machine, which would trigger the next stages of Merck's project.

Although it will take some more time to develop and commercialize freezeREV, the agreement with Merck provides revenues for EnWave as the machine and technology is further developed.

If the installation of the powderREV and freezeREV platforms in the pharmaceutical sector yields superior performance to incumbent dehydration technologies, it will solidify EnWave's value proposition with

potential new partners in the pharmaceutical industry.

### **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.

## **GROWTH DRIVERS**

### **Drying and Decontaminating Cannabis**

Medicinal cannabis is often used by chronically ill or immunocompromised patients, causing several countries with medicinal cannabis programs to employ strict standards regulating microbial contamination of herbal cannabis products in order to reduce the potential for opportunistic lung infections. Ionizing radiation is currently the only method commonly employed to meet these medicinal cannabis microbial standards.

However, EnWave's patented technology pasteurizes and uniformly dries cannabis in its natural state, without any additives, in under one hour, dramatically shortening the time from harvest to marketable products and circumvents the need to transport medical cannabis to highly-specialized and expensive off-site decontamination facilities.

Another major advantage is that EnWave's continuous high-volume REV drying process also eliminates the need for large-scale in-house drying rooms and their associated potential for product loss due to mold growth

during the traditional multi-day drying process.

### **PASTEURIZATION**

Pasteurization is the process of heat processing a liquid or a food to kill pathogenic bacteria to make the food or beverage safe for consumption. The use of pasteurization to kill pathogenic bacteria has helped reduce the transmission of diseases, such as typhoid fever, tuberculosis, scarlet fever, polio, and dysentery.

Finally, a common method for the extraction of cannabinoids (essential oils) from the dried plants uses pressurized CO2 as solvent. The challenge with this process however is that moisture levels in dried leaves often vary, which results in inconsistencies in the oils that are extracted. The goal with REV is to produce a much more homogenous raw material at a specific moisture level.

**Worldwide the use of cannabis for medicinal purposes is being legalized. Thanks to the expanding market, the cost savings that can be generated with the REV technology, and the high royalties, cannabis could become an extremely profitable sector for EnWave.**

**We understand that there are lots of conversations ongoing with other cannabis companies in Canada and abroad to sign up for a license agreement with EnWave.**

**Interesting to know in that regard, is that while EnWave granted Tilray the right to sub-license the REV technology to other Licensed Producers in Canada, there is now also interest from third parties to directly license the REV technology outside of Canada.**

### **EnWave Potentially Solving Major Military Issue**

In June 2017, EnWave entered into a contract with the US Army Natick Soldier R&D Center to jointly develop low weight, high quality, nutritious field rations.

This opportunity for EnWave is enormous, as potentially hundreds of thousands of men and women in active duty could be served Radiant Energy Vacuum (REV) dried rations.

Warfighters consume the rations when they are deployed or in training. These are called Meals Ready-to-Eat (MREs). Deployed service members have been relying on them for more than 30 years.



**A shelf stable, compressed Salad Bar wrapped with collard green leaf**

**Dr. Tom Yang, a Combat Feeding Directorate (CFD) food technologist, came up with the idea for a compressed salad with honey mustard dressing in the form of a food bar. The bar, pictured here, is made using REV and is comprised of fresh vegetables covered in a honey mustard dressing and wrapped in a collard green leaf. The wrap is low-weight, low-volume and shelf-stable. (Photo Credit: Dr. Tom Yang).**

The MRE is intended as a single meal and is issued in a durable tan plastic bag. Inside, each MRE provides an entrée, an assortment of sides and bakery items, beverage base powder, and an accessory pack that includes gum, tissue, a moist towelette, and seasoning.

Although the MRE has continuously improved in both form and function over the years, it has one major drawback, the fact that warfighters already have to carry up to 100 pounds of gear. This means that they have very limited space for storing food.

If fighters go into the field for three days, they have to carry nine bulky MREs with them. What often happens, is that they will 'field-strip' their operational rations by removing unwanted components to save weight, thereby sacrificing crucial nutrition.

Consequently, the military is focused on reducing the footprint (weight and volume) of what fighters have to carry in the field. It will

not only increase chances of them packing more rations, it will also lessen their fatigue and improve agility and speed.

This is exactly where EnWave comes into the picture and why the US Army Natick Soldier R&D Center signed a contract with the Company. The goal of the cooperation is to produce lightweight, shelf stable, nutritious, compressed food bars.

The Company's Radiant Energy Vacuum technology is uniquely suited for this purpose, because food items can be intermediately dried, and as such easily compressed. When products are dried with other drying techniques and then compressed, they typically pulverize into small pieces.

Initial testing has focused on perfecting the power bars, so that they may be included as part of the MREs. Three primary factors were critical during these tests: warfighter feedback, nutritional content, and shelf stability.

Internal focus groups of up to 200 people involved in sampling of these new products have been very enthusiastic about the composition and flavor of the samples provided.

In addition, all MREs must meet nutritional standards. The REV protein power bars prepared have satisfied all these requirements. Finally, longer term studies to review shelf stability and durability under rigorous conditions are still underway but no issues have been encountered so far.

There are 24 different varieties of MREs currently approved for the military. The REV-dried range under development includes protein bars derived from meat, dairy, vegetable, and whole eggs. If satisfactory results indicate further potential, these power bars could eventually serve as a replacement to the current suite of MREs.

This is a promising start to the development process. Test work will continue at EnWave's facility to refine the prototype products and ensure that they stand up to the precise requirements of the program. This ongoing

work will also generate additional revenues for EnWave.



**More results of tests conducted at EnWave's facility. In this case, fresh bananas and blueberries have been made into a shelf-stable, compressed fruit medley bar. Photo Credit: David Kamm, NSRDEC).**

As the Company successfully advances further along the development process with favorable reviews, the overall outlook for a successful resolution increases. This in turn may lead to a decision to formally embrace the new power bars as part of the MRE program, and require suppliers to purchase REV machines in order to meet delivery commitments.

## RECENT EVENTS

### Royalty-Bearing License for Nomad Nutrition

In February 2018, EnWave signed a royalty-bearing license agreement with Nomad Nutrition Limited. The Canadian based food company has an interesting and innovative history, creating healthy dehydrated food products that provide nutritional energy-packed meals. Nomad has established its niche marketing to backpackers, hunters, and outdoor enthusiasts. The high quality product line is known for its rugged appeal to adventurers while also offering a gourmet taste experience.

"Born in the mountain ranges of British Columbia, Canada, Nomad Nutrition is the culmination of a lifelong pursuit of wild places and good food" says Nomad Nutrition founder

Denis Mikhailov. Mikhailov, an avid hiker and mountaineer, spent years looking for the best food to fuel his body and his adventures.

On trips, with little time to prepare, he often ended up eating uninspiring pre-packaged camp meals that didn't do much for his energy levels or his digestive system. Then one day deep in the Bugaboos, BC, Mikhailov met a mountain guide who had some of her homemade, dehydrated shepherd's pie left over. That experience inspired Mikhailov to hit the books, comb through academic journals, and search the far corners of the internet for the best recipes and methods of dehydrating food.

After six months of research, endless recipes and a lot of trial and error, Nomad Nutrition was born, a new standard for adventure meals that are 100% natural, vegan and jammed with energy.

Shortly thereafter, Mikhailov introduced a line of gourmet meals in a bag with four distinct flavors, Hungarian Goulash, Kathmandu Curry, Irish Shepherd's Pie and Indian Red Lentil Stew. These are all made from organic, local, GMO-free ingredients that only take minutes to prepare. Moreover, thanks to EnWave's revolutionary REV dehydration technology all nutritional value and flavors are retained.

While EnWave has partnered with several companies that are active in the food processing sector, this agreement with Nomad is the first one in the meals-ready-to-eat market vertical. Nomad has committed to buy a 10kW REV machine to begin commercial production of its organic health foods.

In addition, Nomad has agreed to pay EnWave an undisclosed royalty on the revenue derived from the sales of their products in exchange for the exclusive right to manufacture their specific products in Canada using REV technology.

Prior to signing the License, Nomad was using EnWave's pilot plant facility to toll manufacture its line of innovative and healthy ready-to-eat meals. After successfully launching its four products, Nomad determined that the business opportunity

justified investing in their own REV machinery.

### Breakthrough Deal in Asian Market

Early January of 2018, EnWave closed a TELOA with Calbee Incorporated, a major Japanese snack food manufacturer. Calbee has been in business since 1949 and represents an ideal partner company given its popular healthy snacks that have already secured impressive brand awareness in Asia. This highly successful company generated sales of CDN\$2.89 Billion last year, and posted a net income of CDN\$199 million.

Calbee’s senior management visited EnWave twice as part of their thorough evaluation process prior to moving ahead with the relationship. The TELOA agreement represents another validation of EnWave and its technology.

Calbee will be renting a pilot-scale REV machine, commencing next month, to evaluate and test several snack foods at its facilities in Japan.



Calbee Yuzu Koshoo potato chips.

This arrangement allows for expansion in a dynamic foreign market that offers the potential for accelerated growth. Success in the Japanese market is often dependent on building strong partnerships with companies

that are already established in the community.

EnWave is currently working on several other deals in Japan through a cooperation agreement with Tokyo-based Correns Corporation. Correns, which serves both suppliers and buyers, aims to bridge partnerships between Japanese and Western companies. With the Calbee beachhead secured in Japan, doors of other established Asian companies may open to consider similar deals with EnWave.

### FINANCIALS

EnWave generates revenue from two business segments: EnWave Canada and NutraDried. EnWave Canada sells REV machinery to royalty partners, rents REV units to prospective royalty partners, and earns royalties from customers that sell REV dried products. Note that royalties are payable to EnWave as a percentage of the value of products sold or based on the number of units produced by its royalty partners. NutraDried, on the other hand, sells Moon Cheese snacks into retail and wholesale distribution channels.

Amounts in \$000's	12/31/17	12/31/16
EnWave Canada Sales	2,121	2,145
NutraDried Sales	2,398	1,322
<b>Total Sales</b>	<b>4,519</b>	<b>3,467</b>
Cost of Goods Sold	3,093	2,683
<b>Gross Profit</b>	<b>1,426</b>	<b>784</b>
Expenses	1,823	1,402
<b>Net Profit (Loss)</b>	<b>(397)</b>	<b>(618)</b>
Diluted Shares Outs.	95,781	90,776
Diluted EPS	(0.01)	(0.01)

**Selected income statement data for the quarters ended December 31, 2017 and December 31, 2016.**  
Source: Company Filings

EnWave Canada achieved revenue of \$2.12 million for the three months ended December 31, 2017 which is about even to revenue of \$2.15 million for the three months ended December 31, 2016. The small decrease in revenue is due to timing and volume of commercial machinery sales. During the first quarter of 2018, revenue was generated from

commercial equipment sale contracts with Tilray with the purchase of a 10kW and 60kW units, Pitalia from the purchase of a 100kW unit, Van Dyk with the purchase of a 60kW unit, and Howe Farming, AvoLov and Bare Foods purchasing 10kW units.

In addition, EnWave Canada earned royalties of \$203,000 during the three months ended December 31, 2017 compared to \$122,000 for the three months ended December 31, 2016, a strong rise of 66%. The Company expects royalties to continue to grow as new license agreements are signed and additional REV machines are deployed.

EnWave Canada reported a net loss of \$813,000 for the first quarter of fiscal year 2018, while it had a net loss of \$744,000 in the comparable period last year.

NutraDried, on the other hand, reported revenue of \$2.40 million in the first quarter of 2018 compared to \$1.32 million in the first quarter of 2017, an increase of \$1.08 million, or 81%. The increase was due to NutraDried securing an initial order from Costco's Midwest division.

In addition, NutraDried reported a net income of \$416,000 in the first quarter of 2018 compared to \$126,000 in the same period of fiscal 2017, an increase of 230%. NutraDried's success solidifies the business case for using REV to create profitable consumer products.

### Balance Sheet As Of December 31, 2017

Most notable on the balance sheet, is the major difference in cash and cash equivalents. On November 15, 2017, the Company completed a prospectus offering prospectus offering and concurrent private placement of 9,530,000 Units of the Company at \$1.05 each for combined gross proceeds of \$10 million.

The net proceeds of the financing will be utilized to accelerate EnWave's growth. For example, several large scale quantaREV and nutraREV units will be manufactured so that lead times become shorter.

Also, additional staff will be hired, such as a LEAN consultant to optimize the engineering and manufacturing process; a technical sales person to further expand the business development pipeline; and additional engineers to help with the installation and manufacture of the REV dryers.

Amounts in \$000's	12/31/17	12/31/16
Cash and Cash Eq.	10,942	3,435
Restricted Cash	250	250
Trade Receivable	2,428	959
Due From Customers Under Contract	2,187	2,080
Inventories	2,549	2,261
<b>Total Current Assets</b>	<b>18,540</b>	<b>9,666</b>
Plant and Equipment	2,550	3,485
<b>Total Assets</b>	<b>21,926</b>	<b>14,731</b>
Trade and Other Payables	1,814	1,510
<b>Total Current Liabilities</b>	<b>2,882</b>	<b>2,905</b>
Long Term Debt	73	151
<b>Total Liabilities</b>	<b>2,955</b>	<b>3,056</b>
Total Stockholder Equity	18,971	11,675
<b>Selected balance sheet data on December 31, 2017 and December 31, 2016. Source: Company Filings</b>		

**EnWave could have raised \$25 million in this offering if it wanted to, indicating that interest from institutional parties was extremely high. In fact, the financing added a double-digit amount of new institutional shareholders. This more than ever shows the confidence that professional investors have in the future of the technology Company.**

### OUTLOOK & VALUATION

In the past, food processing companies had to choose between minimizing their drying costs or producing premium dried products. With 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 an innovative 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.

An increasing number of food, cannabis, and biopharmaceutical companies are realizing that REV is the way to go if they want to maintain their competitive advantage. EnWave's business model allows for territorial exclusivity, therefore it is simply a matter of signing an agreement first before a competitor snatches away the rights for a certain country or product.

The sale of REV dryers is generating millions of dollars for EnWave. Moreover, with each additional REV unit becoming operational, the minimum quarterly royalties are increased proportional to the size of the machine. A 100kW machine will typically generate between \$200,000 and \$400,000 in royalties per year at full utilization. As more and more machines are taken into production, EnWave will benefit big time.

With strong sales growth and a positive cash flow, EnWave has clearly set the stage for an outstanding 2018.

NutraDried's business performance strengthened significantly in fiscal year 2017, and through the first quarter of 2018. We believe that by obtaining 100% equity ownership, the Company will be able to further drive growth in the revenue and profitability from Moon Cheese sales. The Company is targeting to reach sales of over \$10 million in Moon Cheese alone during 2018.

In addition, NutraDried continues to serve the Company as a showcase of the capability of large-scale commercial REV machinery to current and potential royalty partners.

We also expect to see several agreements and orders from the cannabis space in 2018. Tilray, EnWave's first partner in the cannabis

space, operates in eight other countries worldwide, including Germany, New Zealand, and Australia, providing a diversified line of medicinal cannabis, oils and extracts. Considering the positive relationship established with Tilray so far, it suggests that the company will move towards further growth opportunities with EnWave in the future. In effect, this is a natural progression for Tilray to maintain its competitive advantage in a rapidly evolving sector.

While the regulatory regime may vary from one country to another, the superior processing capacity afforded by REV technology is likely to motivate producers in other jurisdictions to seek a licensing arrangement with EnWave in the emerging legalized cannabis market.

Moreover, we look forward to continued positive developments from ongoing research at the US Army Natick R&D Center. Securing the initial development program collaboration with the US Army Natick R&D Center was a breakthrough for EnWave. Just to get in the front door and be selected as a potential development partner involved an investigation to review the REV processing capabilities, and the Company itself. Natick also has visited the EnWave test facility several times since the cooperative effort commenced.

A successful outcome to this process would be extremely attractive for EnWave shareholders. Consider that military spending is typically very stable and less affected by variables in market cycles that consumer goods may face. Also, the scale of a production contract for the MREs developed using REV technology would probably involve the sale and installation of numerous large machines, and generate significant long term royalty payments to the Company.

EnWave's corporate strategy to work directly with its clients to assist in development, and participate in the creation of new products, is contributing to stronger relationships. These partnerships are as important as the REV technology itself. EnWave is now demonstrating success with the commercialization phase of its REV machines, one client at a time.

The Company is gaining acceptance in the marketplace for its REV technology and the specific advantages offered to various economic sectors. Each new client that makes the decision to purchase REV units serves as a validation of the technology. This in turn creates opportunities as other companies are more likely to consider investigating a technology after it has been successfully tested and commercialized by their peers.

Expect meaningful revenue growth through the rest of the year from these sales breakthroughs into new sectors, as well as from sales to players in existing sectors that don't want to miss the REV dehydration boat.

## 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 115 million shares outstanding, the intrinsic value of EnWave's shares derived from our model is \$3.49, about equal compared to our previous report.

**We reiterate our buy recommendation for EnWave Corp. with a price target of \$3.49, which is 184% above today's stock price.**

## SHARE DATA & OWNERSHIP

As of December 31, 2017, EnWave had approximately 100.6 million common shares outstanding. In addition, the Company had approximately 8.5 million warrants outstanding with an average exercise price of \$1.36.

Finally, EnWave has a little over 5.9 million stock options outstanding with a weighted average exercise price of \$1.11. 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 (4.25%), Manulife Asset Management (2.48%), and Kimelman & Baird (1.30%).

## MANAGEMENT

### ▣ 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.

### ▣ 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. 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.

**▣ MR. BRENT CHARLETON, CFA – SVP  
SALES AND BUSINESS DEVELOPMENT,  
OFFICER**

Mr. Charleton has extensive experience working in competitive team-based

environments in the public and private sectors. He has managed the business development, marketing and investor relations 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.

## ANNUAL INCOME STATEMENT FY 2014 – 3M 2018

All numbers in thousands

PERIOD ENDING	FY 2015*	FY 2016	FY 2017	3M 2018
<b>Total Revenue</b>	<b>5,868</b>	<b>14,933</b>	<b>15,954</b>	<b>4,519</b>
Cost of Revenue	4,689	10,383	11,654	3,093
	<b>1,179</b>	<b>4,550</b>	<b>4,300</b>	<b>1,426</b>
<b>Expenses</b>				
General & Administrative	2,089	1,989	2,072	593
Sales & Marketing	719	793	2,160	305
R&D	1,386	1,656	1,138	291
Amortization Intangible Assets	1,420	1,222	888	254
Stock-based Compensation	261	399	891	22
Total Operating Expenses	6,172	6,387	7,286	1,823
<b>Net Loss Applicable To Common Shares</b>	<b>\$4,993</b>	<b>\$1,837</b>	<b>\$2,986</b>	<b>\$397</b>

**Annual Income Statement FY 2015 – 3M 2018. Source: Company Filings**

\* Note that in the Fiscal Year 2015 column all revenues and expenses generated by Hans Binder Maschinenbau – a former subsidiary of EnWave - have been excluded, due to its insolvency on September 29, 2015.



## TSX Venture: ENW

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