

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



**Senior Vice President Business Development of  
EnWave Corp.**



**TSX Venture Exchange: ENW**

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**Mr. Brent Charleton - Senior Vice President, Business Development.** Mr. Charleton has extensive experience working in competitive team-based environments in the public, private and not-for-profit industries. 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 is also the President of the BCIT Alumni Association, has completed the Canadian Securities Course and a CFA Level 2 candidate.

**Smallcaps Investment Research: Welcome everyone to a new interview on Smallcaps Investment Research. We're very pleased to have Mr. Brent Charleton with us today, the Vice President Business Development of EnWave Corporation, to give us an update on his Company. Although our previous interview was conducted only a few months ago, the progress at EnWave since, is very impressive. 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: Thanks for having me.

**Let's start with EnWave's first quarter results, which were impressive to say the least. Would you give us the highlights, and how do you feel about the performance?**

We accomplished quite a bit in our first quarter of fiscal year 2016. We continued to expand the distribution of the Moon Cheese dried snack product both in the United States and in Canada.

We extended the technology evaluation agreement with Jack Link's Protein Snacks. And we signed a new technology evaluation agreement with Natures Touch.

In addition, we signed a commercial license with Agricola Industrial La Lydia from Costa Rica for the production of fruits and cheese products. And we started commissioning a large scale REV machine for one of our pharmaceutical partners.

Finally, and perhaps one of the more important developments, was the closing of a

\$5 million bought deal private placement, which definitely strengthens our balance sheet and enables us to execute our corporate mandates.

**And can this growth be maintained? I mean, what's the outlook like for the following quarters?**

I absolutely think that it can be continued. Looking at our recent press releases, we signed additional commercial licenses, and received purchase orders for machinery. I envision that to continue to grow. We're at the point of inflection with commercialization of our technology and the interest has never been so high.

**Just as important as the financial results, is the Company's balance sheet. And also there we see a strong improvement right?**

Yes. Prior to the private placement, our cash position was hovering around \$1.5 million to \$2 million. Now we're very comfortable with over \$5 million in the bank.

In addition, we hope to receive back about \$1.5 million in restricted cash, which is tied to a performance bond from Hans Binder Maschinenbau, a former subsidiary of EnWave. Those funds will probably be returned to our account sometime in May 2016.

**One solid contributor to your first quarter financials was Moon Cheese, the cheese snack produced by EnWave's 51% owned subsidiary NutraDried. Can you elaborate somewhat on the product's success and distribution?**

So far, we've been most successful distributing and selling Moon Cheese through

the Starbucks coffee chain, which offers the cheese snacks throughout 7,500 corporate stores in the U.S. and 1,400 corporate stores in Canada. Those orders have accelerated and increased and it's been a very important growth driver for that business.

In addition, we've recently secured trial launches and consistent launches in companies like Walgreens and REI in the United States. And we are also looking to get into some other specialty stores in Canada.

Moon Cheese is sold in many major grocery chains in North America. And we even had some entrepreneurs exporting the products from the United States to sell them in foreign countries.

At this moment, the success is predicated mainly on the Starbucks support, but the team at NutraDried is working hard to secure other clients and customers that are of the same quality and size of Starbucks.

**And it doesn't stop there for cheese snacks being produced with EnWave's technology. There literally is worldwide interest in the product. Would you tell us some more about that?**

Sure. In regards to EnWave's business development efforts we know that dried cheese products work, customers love them and economics are very attractive. So that makes it easy for us to present an attractive business case to other dairy companies in various parts of the world and to persuade them to implement the same model within their market.

We recently saw that with Gay Lea Foods in Canada that purchased a large scale machine for the production of dry cheese snacks. We're also actively in dialogue with several companies in Australia, Europe, and South America to start producing REV dries cheese snacks.

**Next to dairy products, EnWave is excelling in a few other sectors as well. For example, you have several**

**agreements in place with major meat and protein processors. Hormel Foods Corporation, to name one, recently launched REV dried Spam Snacks. What can you tell us about that and how do you see the relationship with Hormel developing?**

At the moment, Hormel has a 100kW REV drier that it's using to produce Spam Snacks. But I do understand they have internally developed a number of other products.

It's a bit too early to tell if Hormel would be needing additional machinery in the near term. We're very optimistic about our relationship though, because it's such an innovative and strong company.

**And could you throw some colour on a few other companies in the meat category with which EnWave is involved?**

Absolutely. In the United States we're very active with Perdue Farms and Jack Link's Protein Snacks. In Canada we are engaged with one of the market leaders called Maple Leaf Foods. And in Europe, we're involved with Campofrio Food Group.

Moreover, We're engaged with companies in Japan, Australia, Europe, and South America. We're actively in dialogue with companies in every major global market where we would like to deploy our REV machinery.

**There's also a growing list of fruit processors with whom EnWave has signed an evaluation or commercial agreement. Milne Fruit Products, for instance, has been gaining traction with its REV dried products. What can we expect here?**

Milne has been doing an outstanding job selling dried fruit product ingredients. In fact, they've confirmed significant repeat orders from major cereal manufacturers. Milne is close to reaching full capacity on its first large scale +100kW REV machine, and we have a high level of optimism for growth within that business.

In addition to Milne, our two most recent commercial licenses both involved fruit and vegetable production. We also believe that there will be additional commercial license agreements confirmed throughout 2016 in that area.

**A final category that I would like to highlight is vegetables. None other than Bonduelle, a true global leader in the production of frozen and canned vegetables, recently launched REV dried frozen vegetables under the brand InFlavor. Can you comment on this event and its potential?**

Yes. Bonduelle is producing dehydrofrozen vegetables with our REV technology. They're remove 20% to 30% moisture out of fresh vegetables and then immediately freeze them. That way, they create a product that has a far better flavor, color and texture when thawed or cooked. This is truly a potential disruptive product innovation that Bonduelle feels could replace frozen vegetables in a very big way.

They've launched InFlavor to their B2B customers in North America and they are receiving feedback and initial orders as we speak. Within the next two quarters we should have better clarity on Bonduelle's potential for growth, which may potentially include additional machine orders to address demand.

I know Bonduelle has an eye on the European market as well. So this is going to be a very interesting evolution that would occur in the next six months or so.

**And only a few days ago you closed another promising commercial royalty bearing license agreement with the Turkish company Ereğli Agrosan. Would you give us an overview of this deal?**

Sure. The deal with the Ereğli grants them the exclusive right to use REV technology in Turkey for a list of food, vegetable, and cheese products. Ereğli is a very well connected, well financed and educated business that has a distinct goal of providing

that region of the world with more natural, healthier snack products.

I was recently in Istanbul where I met the group and I'm incredibly enthusiastic and optimistic about the prospects of their business. We will install a small 10kW commercial unit at Ereğli's facility in the next two months.

And then, as part of their exclusivity license, they are required to purchase a second 10kW unit by the spring of this year, a 100kW machine within twelve months of the delivery of the first 10kW unit, and a second 100kW drier within 3 years of the delivery of the first 10kW unit.

So with this license we included mandatory purchase orders for additional machinery in order for them to retain exclusivity. And that's a tool that EnWave will continue to use in future commercial agreements.

**We already mentioned NutraDried as the successful producer of Moon Cheese. But a few months ago, the subsidiary announced that it was also going to develop products such as sports nutrients and protein bars. How has that progressed since?**

That product development has progressed well, although NutraDried is not at the stage of commercialization yet. This is due to the fact that most of the effort at the company is going to the production and distribution of Moon Cheese.

The 100kW drier at NutraDried is currently running 5 days a week, 24 hours a day in order to keep up with the order flow. This obviously begs the question, "When will NutraDried expand their production capacity?"

Once the capacity at NutraDried is increased, I believe that launching new products will be more likely. Our target for that is 2016.

**So far, we only discussed nutraREV and quantaREV machines that dehydrate food items. But in September of 2015,**

**you sold a powderREV unit to Sutro Biopharma to dehydrate enzymes or pharmaceuticals. Could this become another growth area for EnWave?**

I truly believe so. I think that the Sutro Biopharma relationship is the "dark horse" in our investment case. Everyone knows that we are involved in pharmaceutical development with our technology. And I think the view point is that it will take quite a few years before commercialization can be reached.

But I want to be very clear that if this machinery, which should be delivered in the summer of 2016, is successful with the production of Sutro Biopharma's products, they will immediately go into commercial production, as their ingredient does not require FDA approval. If that were the case, Sutro Biopharma would pay EnWave a royalty based on the production of their pharmaceutical ingredient.

If successful, their throughput capacity will press the need for additional machinery. I think that this is an area that could surprise a lot of people this year.

**It's clear that EnWave has a lot of irons in the fire. In terms of machine sales, where would you like to be by the end of 2016?**

We just sold a first 100kW unit in 2016 to Gay Lea, and we sold a 10kW unit to Ereğli Agrosan. The idea is that Ereğli will order a second 10kW machine in the next few months.

We have sight on at least three or four other large scale orders, which are expected in the next few months. Going into the summer,

we believe that there are several more opportunities for large scale machine orders.

Our target is to sell in the range of six large scale machines this year. If we do so, that will put EnWave in a position to be cash flow positive and potentially profitable.

**Before we go, what would you say are the two or three most compelling reasons for a long term investor to consider EnWave today?**

First, I think you have to look at the merits of the technology. REV is a disruptive technology that can address a massive market worth about \$400 billion. And each year over \$2 billion worth of drying equipment, such as freeze driers or air driers, is sold.

The second part is our royalties, which grow through signing new licenses and subsequently deploying our REV machinery. Our business model is incredibly attractive. It's a royalty model that does not require EnWave to bid on royalty streams, which is typical of any other royalty company. This is most likely the easiest business to deploy and also to confirm large royalty streams.

So I think those 2 points are very important for investors considering EnWave. And I would definitely want to share my optimism on this coming year as it's likely to be an inflection point for EnWave.

**Wonderful. Thanks again Brent for taking time out of your busy schedule to speak with us. We wish you and EnWave all the best and look forward to chatting with you again soon.**

Thanks very much.

## **Interview Feedback**

We welcome your questions and feedback regarding this interview at:

<http://www.smallcaps.us/enwave-senior-vice-president-brent-charleton-calls-pharmaceutical-business-the-dark-horse-in-our-investment-case>

Transcripts are edited for clarity.

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