



NPWZ Moving Very Soon Out Of Development Stage

Summary of Our Research Findings

- Neah Power Systems, Inc. is involved in the fast-growing market for fuel cells and power generation devices for a variety of applications.
- The Company is transitioning into commercialization with the recent PowerChip® shipments to the Government of India and their preliminary BuzzBar™ shipments to consumers and retailers for evaluation. With these many initiatives ongoing, it warrants consideration by investors.
- The recent announcement that they can leverage the PowerChip® fuel cell to build a leading edge battery would enable a licensing / manufacturing play in the very hot lithium battery market. We await details on this new technology.
- The Company has assembled an impressive intellectual property portfolio for fuel cell related technologies that allow for greater power output and reduced manufacturing costs.
- We are especially excited about the Company's formic acid technology that powers fuel cells without the need for compressed hydrogen.
- The Company is very close to shipping a portable charging unit that will integrate a formic acid powered fuel cell. This product will likely be the first true portable, off the grid charging solution to power a host of consumer, military and security related electronic devices. This is an exciting product.
- Even if all convertible debt and preferred shares are converted to common equity along with the debt held by insiders, we are still only left with a market capitalization of approximately \$8 million, which yields an attractive 2X price to sales ratio, assuming the pending acquisition closes. We see no reason this Company cannot support a market value that is much higher.
- Based on the patent portfolio, the Company's technologies and the strong prospects for revenue growth, we believe the \$8 million valuation is a bargain.
- Please see all of our disclosures at the end of this report.

Neah Power Systems, Inc.

(OTCBB:NPWZ)

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Globe Small Cap Research, LLC

Executive Summary

Neah Power Systems, Inc. (OTCBB:NPWZ) is involved in the evolving market for fuel cells and power generation and storage devices for the industrial, military, government, and consumer markets. While currently categorized as a developmental stage company, we believe there is a strong possibility this classification will need to be changed over the coming months as it appears several of the Company's initiatives are now beginning to produce results.

The Company is fully reporting with the U.S. Securities & Exchange Commission and trades on the over OTC Bulletin Board.

Neah Power Systems has a market capitalization of only approximately \$8 million based on our projected share count, which is explained below. Considering the technologies the Company possesses, the intellectual property it controls, the potential size of the markets it is addressing, and the relationships it has established, we strongly believe a very positive risk/reward ratio exists relative to holding the shares.

Simply Put - Neah has some incredible technologies that are being directed toward some very large markets. It appears the Company is getting very close to realizing several of its major goals.

The core markets in which Neah is engaged are exciting and dynamic. The fuel cell market is expected to grow at a very rapid compound annual growth rate for at least the next 20 years, easily reaching multi-billions of dollars in market value during this period.

Neah has developed and acquired an impressive portfolio of patents relating to fuel cell technologies the most important of which is its porous silicon membrane technology, which provides significantly more surface area within the fuel cell resulting in increased power density relative to other technologies. The technology is also capable of operation in both aerobic and anaerobic environments. Additionally, the manufacturing process relies on standard silicone production methods and requires less palladium and platinum catalyst materials yielding low production costs. The Company has also filed patents relative to a fuel cell that utilizes formic acid as its input, which opens up a host of new applications for the Company's technologies. We believe the intellectual property of the Company alone justifies the entire market capitalization.

We are especially excited about the Company's formic acid reformer technology. This technology holds the promise to replace compressed hydrogen as the "fuel" source for fuel cells. Formic acid is an inexpensive industrial commodity that is easy to manufacture and store. The use of this technology is especially exciting relative to automotive fuel cells, as formic acid can be relatively easily integrated into the current gasoline/diesel delivery systems, whereas hydrogen cannot. Formic acid-based fuel cells cost and performance characteristics also make the technology viable for smaller fuel cells designed to power a variety of military, security, and consumer devices.

While we believe the opportunities for the Company's fuel cell technologies within the military, government, and industrial sectors are significant, Neah also has a consumer oriented product that could redefine off the grid power charging for consumer devices. The product suite, which is called BuzzBar, will allow for the powering and charging of a host of electronic devices utilizing the power grid, solar

panels or ordinary batteries as power inputs. While other manufactures offer similar products, the soon to be available option of a formic acid fueled portable fuel-cell holds the promise to offer consumers, and the military and securities industries, the first true, safe, portable off the grid charging solution. We are excited about the prospects for this technology.

As we indicated above, we believe the current market capitalization can be justified on the intellectual property portfolio alone. Certainly, when the revenue production opportunities are factored in relative to the military, security, and consumer sectors, we believe it is even easier to justify the current capitalization. It is also important to point out, however, that the prospects of the Company are very likely to be significantly enhanced due to a pending acquisition. An acquisition of Shorai Inc, which manufactures lightweight lithium ion batteries targeted at the motoring sports industry, is currently pending. Shorai produce approximately \$4 million in revenues during calendar 2014 and produced positive cash flow for the 4th quarter. In our opinion, the closing of this acquisition will be viewed very positively as it will recast the Company out of the developmental stage category and instead as a revenue producing entity.

We value Neah Power Systems using a unique methodology. Based on the Company's recent SEC filings we know that there were approximately 1.2 billion shares outstanding prior to the subsequent events. We make the assumption that 100% of the convertible debt and preferred stock are converted to common shares, as is a considerable portion of other debts the Company owes, much of which is owed to insiders. Even converting the recent \$1.1 million of new capital raised during the fiscal year through June of 2015, a total of approximately 2.2 billion shares will be outstanding. Based on the current share trading price, this yields a total market valuation of approximately \$8 million.

With the assumption of 2.2 billion shares, we are also able theoretically wipe out most of the debt owed by the Company, yielding a balance sheet that relatively robust for a developmental company. The use of 2.2 billion shares is likely on the high side as we are assuming the convertible preferred stock is converted at or near current prices. The terms of the convertible debt are based on market price, so therefore less dilution may be seen if the stock price rises prior to the majority of the convertible preferred being converted to common shares.

Based on the robust portfolio of awarded and pending patents, the potential for the Company to have a very clean balance sheet, a revenue stream that while recently yielding \$4 million would likely be growing, a management team and board of directors that is clearly demonstrated willingness to financially support the Company's developmental efforts, we believe NPWZ is worth every bit of \$8 million, especially considering the valuation would only yield a price to sales ratio of approximately 2X.

We believe what this management team needs to do next is to close the pending acquisition as quickly as possible. We would advise them to then move to convert additional portions of convertible debt and preferred shares, while also attempting to scrub some of the debt off the balance sheet via conversions to common equity. These actions combined with the addition of \$4 million of revenue linked to light weight, lithium ion battery sales would almost assuredly attract additional investor interest.

It is clear the Company's path toward commercialization has hit a few bumps in the road over the past couple of quarters. Based on the announcements the Company has made recently it appears this situation

may be rapidly changing, especially if we assume that the pending acquisition closes during August or September of 2015.

In summary, we view the patent portfolio as being worth millions of dollars on its own. The Company has some unique technologies in areas that are predicted to grow very rapidly over the coming years. Additionally, in this Company's favor is its recent significant successes in attracting capital to continue to fund the relatively robust research and development and sales and marketing efforts. While we believe additional capital will need to be raised in order to continue to fund these operating expenses and the pending acquisition, it appears likely management team can continue to be successful in its fundraising activities.

We like this Company and the opportunity in front to this management team.

Background on Neah Power Systems, Inc.

Neah Power Systems, Inc., which trades on the over the counter market under the symbol NPWZ, is a developmental company with an impressive portfolio of issued and pending patents mainly in the area of renewable energy solutions. Over \$80 million has been invested in the Company to develop these technologies and to begin to move the resulting products into the marketplace. The Company continues to spend relatively heavily on research and development and over the past few quarters has also begun ramping up sales and marketing expenses after launching one product line and preparing the launch of several others.

The potential markets for the Company's products are wide with energy solutions for the consumer, military, logistics and first responder marketplaces. Because of the wide variety of markets to which the technologies can be marketed, the Company is aggressively seeking to partner with various types of companies that can help bring the products into the marketplace.

The power source of choice for many of the above-mentioned markets is currently lithium ion batteries. While such batteries are popular and are huge improvements over previous generations of batteries, it is clear fuel cells will outperform current technologies providing dramatic weight savings, longer run times for devices and much quicker recharge cycles.

To target these opportunities the Company is developing different types of fuel cells, one targeted at applications where an oxygen source is either unavailable or unpredictable, which is called PowerChip®, and one that is a consumer-oriented product, which will use air from the surrounding environment. The product line is called BuzzCell.

The publicly traded company, created via a merger in 2006, currently employs approximately 10 full-time employees, part-time employees and contractors who handle various technical and administrative duties.

Early this year, the Company announced it plans to acquire Shorai, Inc., which is a leading provider of lithium ion-based batteries mainly used in the power sports industry. Shorai was founded in 2010 and has since specialized in providing conversions from traditional lead acid batteries to much lighter and more efficient high-performance lithium ion starter batteries. If this merger occurs, we would expect the merger to be highly accretive. Shorai produced approximately \$4 million in revenues during calendar 2014 and was cash flow positive at the end of the year.

Valuing NPWZ Shares

We base our valuation mainly of the intellectual property portfolio and the strong prospects for a growing revenue stream in a dynamic marketplace.

While the last quarterly report filed with the Securities and Exchange Commission indicates that there were approximately 1.2 billion shares outstanding as of mid-May 2015 prior to the subsequent events, we believe this number underestimates the true number of shares that should be considered by investors in calculating a true market capitalization for the Company.

Based on the currently outstanding convertible debt, the outstanding preferred shares and the other monies owed to company insiders, all of which we expect to convert to common shares, we believe an additional 1 billion shares will need to be issued, which will likely give us a true total share count of approximately 2.2 billion.

While it is highly likely, considering the Company's operating burn rate, which averaged approximately \$724,000 for each of the last two quarters, that additional capital will need to be raised to support the much-needed research and development and sales and marketing programs, we will nevertheless base our current Company value based on only shares that have already been issued and debt that will likely convert into common shares.

Based on this analysis, and using 2.2 billion shares outstanding, the current market capitalization of the company is approximately \$8 million.

So, the question for investors and for us is – Is NPWZ worth \$8 million?

For us it's an easy answer - clearly yes.

With a combined portfolio of 12 patents and 15 patents pending relating to fuel cells and power storage, in addition to a dose of consumer electronics thrown in for good measure, we believe the patent portfolio alone is worth millions of dollars. When we now combine a base \$4 million revenue stream into the fold, we can start comparing normal technology company valuation metrics.

For example, an \$8 million market cap for a company producing \$4 million of revenue yields a price to sales ratio of just under 2X, which is in no way out of line for a company engaged in technology markets that are capable of future hyper-growth – such as the fuel cells.

Additionally, we are basing our \$8 million valuation on a scenario where the vast majority of the convertible debt, preferred shares, and most of the executive management related payables are converted to common stock. Such conversions leave the balance sheet in very good condition allowing the Company to likely lower its cost of capital moving forward by attracting mainstream institutional investors. While we do not believe the Company is ready for prime time relative to institutional investors, one or two successes in the fuel cell arena will likely attract a lot of attention from the crowd.

Updates on Important Initiatives

The Company has several very important initiatives in various stages of development. In this section we look into the status of these developments based on the latest information provided by the management team. It appears the Company is very close to several major announcements relative to these initiatives.

Update on the Clear Path Teaming Agreement

During March of 2015, the Company entered into a teaming agreement with Clear Path Technologies for business development and systems integration. Important to this agreement was the signing of a memorandum of understanding for the distribution and support of one of Neah's most important products, which is the Formira Hydrogen On Demand (HOD) fuel-cell product, which uses formic acid

as the fuel source. The main emphasis of the agreement is to further develop opportunities within the security and defense business, in particular with major defense and securities related departments of the US federal government. Clear Path also has considerable relationships and other areas including Asia-Pacific region, the Middle East, and Africa, on which it hopes to capitalize in order to further market penetration efforts.

Both companies believe a formic acid fueled cell will hold significant advantages relative to military and security powering applications. The solution holds the promise to provide power to a variety of devices when other power sources are simply not available.

On July 20, 2015, the Company provided an update on this relationship indicating that five formic acid reformer units have been assembled and continue to operate. Additionally, the partnership is working to finalize product demonstration dates for Tectonica for various defense applications in Australia. In March of 2015, the Company announced its relationship with Teconica forming a partnership to integrate the formic acid reformer technology into one of Teconica's most important systems. Additionally, Neah and Clear Path are partnering to bring the formic acid reformer technology into the Silent Falcon UAV.

Silent Falcon UAV Update

Silent Falcon UAS Technologies, headquartered in New Mexico, has developed a small, unmanned aircraft system with a modular airframe that can easily incorporate various sensors, airframes, telemetry, data acquisition, transmission and storage devices. The UAV is specifically designed for extreme flight endurance, long-range, silent operation and flexibility in the types of sensors and monitoring equipment that can be carried within the vehicle.

The Company is partnering with Silent Falcon to integrate the formic acid reformer-based fuel-cell technology into the Silent Falcon UAV. The two companies believe the performance of the UAV can be improved, by not only increasing the endurance and flight time, but by also boosting the ability to carry heavier payloads and enabling the carriage of different types of devices that consume more electricity than would be possible if the power system of the UAV were not augmented with a fuel-cell. As of the July 2015 update by management, the companies are still working together to integrate the fuel cell into the Silent Falcon UAV.

Update on Indian Defense Research and Development Organization

Neah also continues its program with the Defense Research and Development Organization (DRDO), which is part of the Indian government. The two organizations completed initial testing of the Neah PowerChip® technology at one of DRDO's sites during January of 2015, resulting in Neah receiving payments of approximately \$165,000 for the initial test units. We believe additional news relative to this relationship, and the production of additional revenues or orders, will be forthcoming over the short term. Neah has recently indicated that a third-party entity certified the testing qualification and acceptance as of December 2014, which they believe is likely the final hurdle to a commercial relationship with the government of India.

Update on the Shorai Acquisition

On July 20, 2015, the Company also provided an update relative to the Shorai acquisition. It appears the companies are continuing integration, pending the closing of the merger. While the latest extended closing date was July 15, 2015, the date was once again extended as the companies review term sheets from funders.

BuzzBar™ Update

As we indicate later in this report, we are also very excited about the recent developments with the BuzzBar™ product line, in particular the BuzzCell formic acid fuel-cell, which will allow the Company to be first to market with a true off the grid, flexible charging system for a host of consumer electronic devices. Management indicates it expects to begin shipment of its Gen 3 BuzzBar™ product line later this year. We are particularly interested in developments at big-box retailers and outdoor gear retailers relative to the Gen 3 product and we will be watching closely for developments.

Fuel Cells and The Market Opportunity

A fuel cell is simply a device that generates electricity via a chemical reaction – not combustion. The output of the fuel cell is similar to the output of a battery - meaning electricity - but the methodology for production is very different. Fuel cells are an open system where the hydrogen and oxygen, which are supplied externally, react in order to produce electricity. As long as hydrogen and oxygen are supplied to the fuel cell, power will be generated continuously, meaning no recharging is required.

An individual fuel cell does not produce a lot of power, typically less than one volt per cell. Therefore, many individual cells are connected in order to produce enough electricity to be useful. Technically speaking, a fuel cell refers to an individual cell; however the usage of the term fuel cell has evolved over recent years to mean the entire system of many linked fuel cells.

Most fuel cells use hydrogen at the point within the fuel cell with the chemical reaction takes place producing electricity. Hydrogen, however, is a high-pressure gas, extremely flammable and has the potential to react very violently with the oxygen in the air. While the storage of other fuels, such as gasoline and diesel, is already dangerous, the addition of hydrogen storage compounds further the potential dangers.

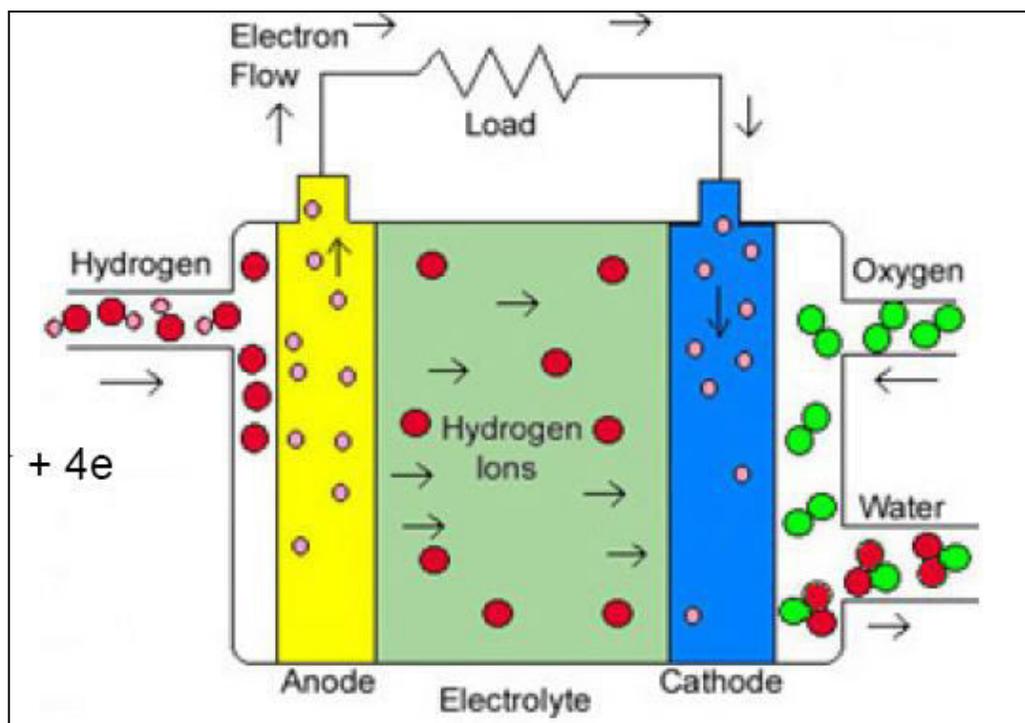
For other applications the use of hydrogen is not practical. For example, no one would believe most of us would be particularly comfortable throwing a container of hydrogen into our briefcase to power our laptop computer. For such applications, a technology called a hydrogen reformer was invented, which is a device that extracts pure hydrogen from other sources such as hydrocarbon-based liquids. and then provides the extracted hydrogen to the fuel cell. The drawback to the use of reformer technology reduced efficiency and the production of CO₂ as a byproduct, whereas the use of pure hydrogen as the input into the fuel cell is more efficient and will produce no CO₂.

Fuel cells can be used as an alternative to traditional power generators, which are currently mainly gasoline, diesel or steam driven. In such applications fuel cells are generally more fuel efficient, operate with very little noise, and most importantly produce very little to no harmful emissions.

Compared to these other sources of power, fuel cells are also typically more reliable and easier to maintain because they contain no moving parts

A simplified example of the generic hydrogen fuel-cell is outlined below in Figure One.

Figure One - Hydrogen Fuel Cell



- A fuel cell can be an open system
- Anode and cathode are gases in contact with a platinum catalyst.
- Reactants are externally supplied, no recharging required

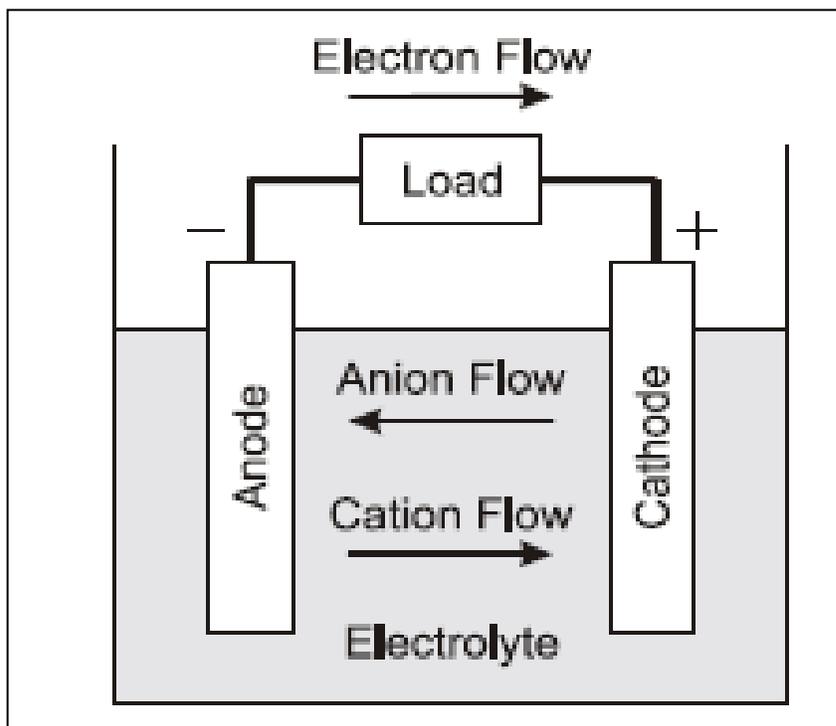
Source: U.S. Department of Energy

Fuel cells are not only just an alternative to power generation, but can also be used as an alternative to batteries. Compared to batteries, fuel cells offer significant weight savings, a smaller size for the same power output, require no recharging, and of course, offer continuous use as long as both hydrogen and oxygen are supplied to the system.

Different from a generic fuel cell, a battery is a closed system with all of the reacting agents contained within the battery. As electricity is produced the reacting agents are used up, which is why batteries need to be recharged periodically.

Figure Two below is a simplified diagram of how most batteries work.

Figure Two – System of a Typical Battery



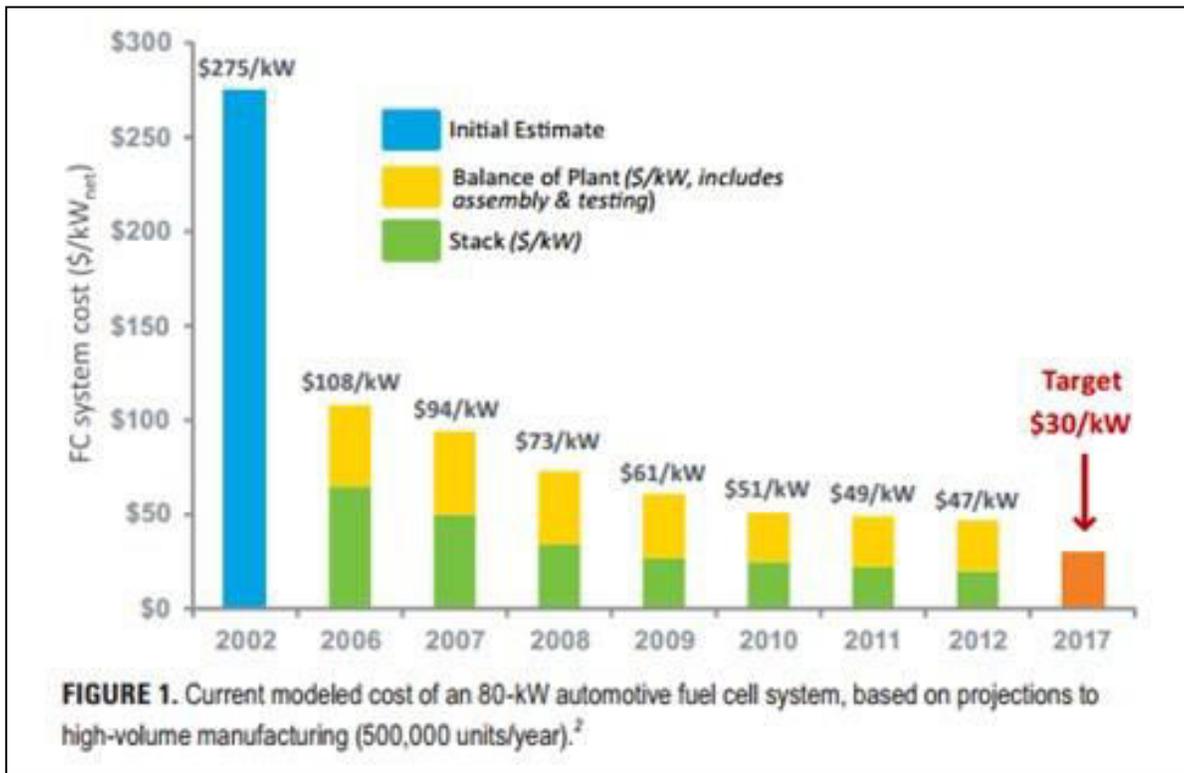
- A battery is a closed system
- Anode and cathode are metals.
- Reactants are internally consumed in need periodic recharging.

Source: U.S. Department of Energy

Traditionally, fuel cells were large and very expensive to manufacture, which limited wide scale adoption. Just as has occurred with many technologies over the years, during the initial stages of introduction costs of production are high, but as demand grows and mass manufacturing techniques are utilized, the cost curve moves down steeply. While Figure Three outlines the dramatic drop in fuel-cell costs for large automotive fuel cell systems, a similar cost curve has been realized relative to smaller fuel-cell systems.

Figure Three outlines the dramatic drop in fuel-cell costs since 2006.

Figure Three – Drop in Fuel Cell Cost as Power Rises



Source: U.S. Department of Energy

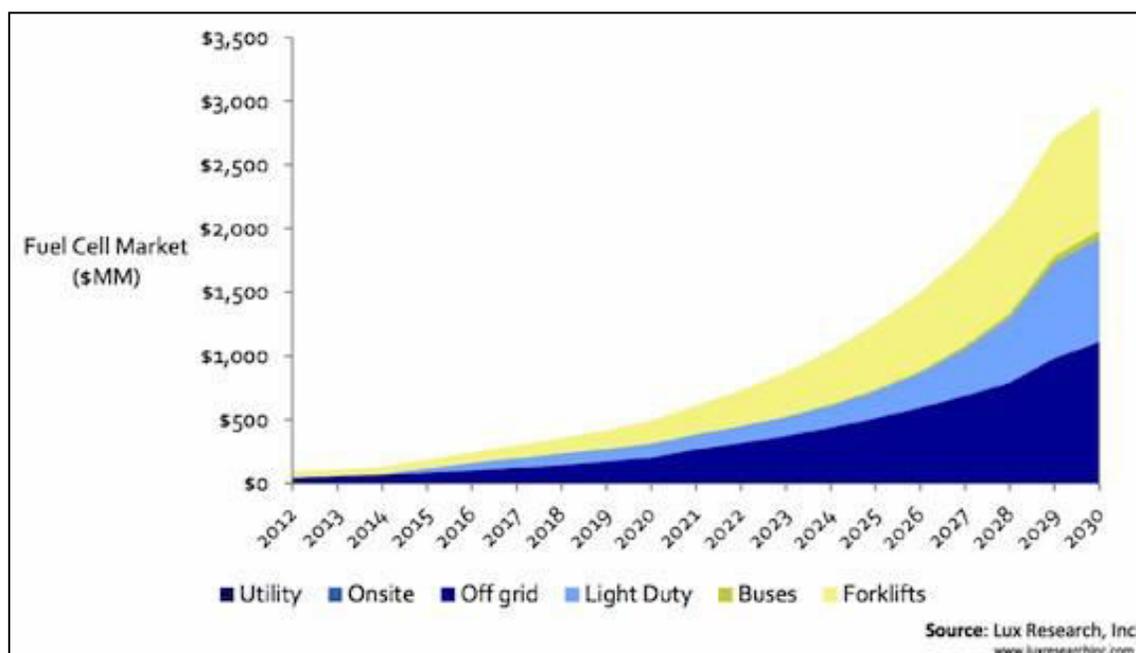
Whereas in the past, larger things, such as cars, trucks and generators needed an energy source such as internal combustion engine and portable devices, such as computers, relied on batteries, as technology has advanced and as manufacturing costs have come down, fuel cells are now a viable option for these types of applications.

Sizing the Market Opportunity for Fuel Cells

Industry forecasts for growth in the fuel cell market vary widely. *Transparency Market Research* predicts the market for fuel cells will grow at an annual compound growth rate in excess of 15% reaching nearly \$1 billion in the U.S. alone by 2018. Market research firm Frost and Sullivan just tagging the worldwide market at approximately \$1.3 billion by the year 2016 with significant growth expected year after year. Lux Research, Inc. cuts the data differently compared to the other two research firms, dividing the market into six different subsectors.

As is shown in Figure Four, Lux Research is predicting the worldwide fuel cell market to grow at a very rapid rate reaching over \$3 billion by the year 2030.

Figure Four – Prediction for the Value of the Fuel Cell Market



Source: Lux Research, Inc.

The market for fuel cells is typically segmented by the amount of power the market application requires. The Company is targeting markets where conventional batteries are used to power portable electronic devices that operate in the sub-4,000 W range. The Company's technologies, in our opinion, are best suited for lower power applications, such as those in the consumer market for computers, electronic media, cell phones, etc. In addition, we see a host of applications in the industrial area and with the military and federal government sectors for electronic security equipment.

The Company's unique technologies are also well-suited for what is often referred to as the remote area power supplies market, which are fuel cell-based power generation systems for distributed power applications to either supplement the electrical grid or to provide power for off grid needs. While we do believe the Company's technologies are sellable into these markets, we also point out that sales lead times are often very long within this market sector.

We believe the Company's best near-term sales prospects for fuel cells are both military and government related. There is currently significant military related research underway relative to the replacement of batteries with fuel cell alternatives, especially in the area of unmanned aerial vehicles. We believe the Company's products are particularly well-suited for such applications.

We also see near-term sales prospects in the consumer mobile electronics market, especially with the BuzzBar™ suite, which enables owners of consumer electronic devices to free themselves from the confines of the electrical grid. While the product is currently limited to grid, solar and battery recharging, we believe the addition of the fuel cell product to the BuzzBar™ suite could prove extremely popular in many consumer applications. Because the fuel cell for the BuzzBar™ product

will utilize a proprietary for fuel cartridge, the Company could also easily begin realizing very high margin recurring revenues as consumers adopt the technology.

We believe a valuable public company could likely be built on any one of these multiple markets this Company is addressing. The fact the Company has a multiple of revenue production opportunities is very exciting to us as these opportunities not only hold the potential for significant profits, but also significant diversification of the revenue stream.

We also believe it is very important for this Neah to pursue consumer-oriented opportunities, such as those presented by the BuzzBar™. While the fuel cell arena holds a great deal of sex appeal and will likely attract a lot of investor attention, timeframes for adoption of new technologies are often notoriously long, which some investors may find disappointing.

The Neah Power Systems Secret Sauce - Porous Silicon

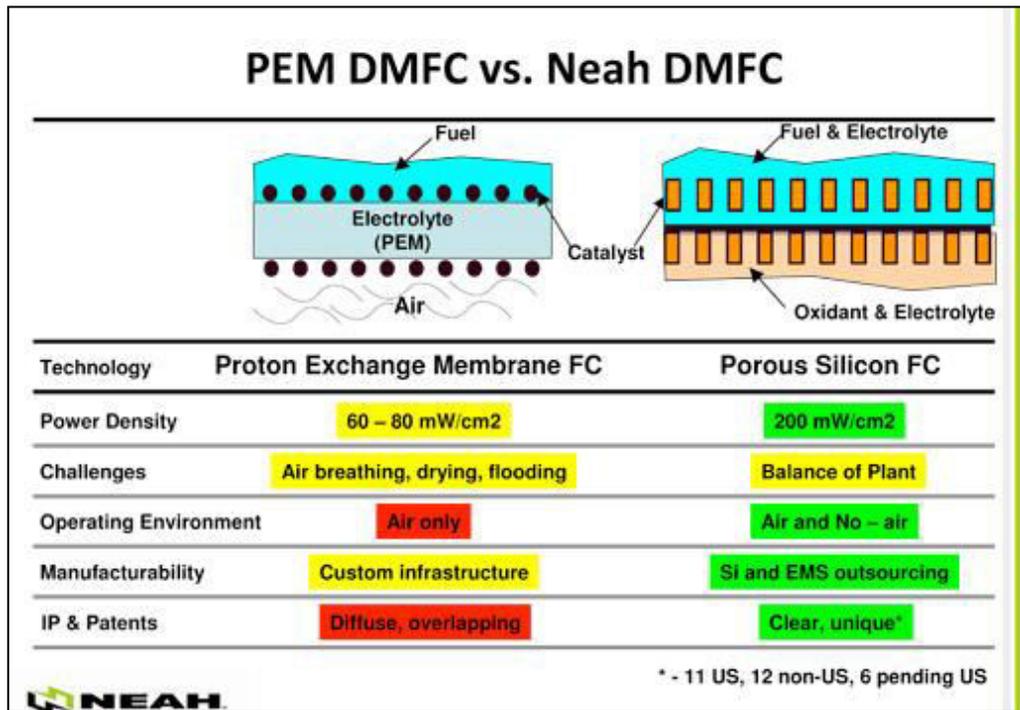
The Company's core technology was specifically designed to address issues with legacy methanol fuel cells. Such fuel cells are based on a technology called a proton exchange membrane. The membrane conducts hydrogen ions and prevents gas from passing from one side of the fuel cell to the other.

Neah has redesigned the membrane using porous silicon with a metalized surface, which the Company claims allow for a 40-fold increase in the surface area. In a fuel cell an increase in the surface area will generally result in increases in power density - meaning more power produced for an equivalent sized fuel cell.

As is outlined in Figure Five, there are significant advantages to the Neah technology, which are not only related to power density, but also related to cost of manufacturing as production of the product does not require custom designed manufacturing equipment, but instead utilizes existing silicon manufacturing technologies.

Additionally, both platinum and palladium, which are the typical catalyst materials within a fuel cell, are very expensive reducing the cost competitiveness of fuel cells versus competing technologies. Neah claims its thin film techniques significantly reduce the amount of these materials that are required, thus increasing the competitiveness of fuel cells based on the company's patented technology.

Figure Five - Legacy PEM vs. Neah DMFC



Source: Neah Power Systems, Inc.

Two Types of Fuel Cells - Aerobic Versus Anaerobic

Strictly speaking the terms aerobic and anaerobic refer to the presence or absence of oxygen. An aerobic process is one which occurs with oxygen and anaerobic process is one which occurs without. While the discussion of aerobic versus anaerobic typically centers around body metabolism, exercise and cell function, it also applies across a wide array of sciences and technologies where oxygen is or is not present.

As we discussed above, the function of a fuel cell is dependent upon the chemical reaction between hydrogen and oxygen. In a typical fuel cell both hydrogen and oxygen are supplied from an outside source into the fuel cell where the chemical reaction takes place to produce electricity.

Anaerobic Fuel cells are also needed in areas and for applications where oxygen may not be readily available. Examples include highly polluted environments, which perhaps are dense with diesel engine fumes, or environments where oxygen is never present in gas form such as underwater or in space. Because oxygen is required for a fuel cell to function, in such environments where oxygen is not present an oxidant must be introduced artificially. Via the introduction an oxidant into the chemical reaction process it is possible for fuel cells operate in such an anaerobic environment.

Neah Power Systems PowerChip® Technology

The Company has specifically designed its PowerChip® fuel cell to operate in environments where sufficient oxygen from outside sources is not available. PowerChip® utilizes a patented structure within the fuel cell circulating liquid streams of fuel, oxidant and electrolyte to produce the chemical reactions that are needed to generate electricity.

This type of design allows the Company to create power sources that do not require interaction with the outside environment for operation. A fuel cell based on PowerChip® technology requires no oxygen from the outside and expels no gas. Additionally, the water that is created through the chemical process is retained in the fuel cartridge, thus resulting in a completely closed system.

The Company believes the PowerChip® technology enables it to produce higher power output at a lower cost for the equivalent size of fuel cell compared to other fuel cell technologies produced by other companies. Additionally, there also seems to be a significant manufacturing cost savings inherent to the PowerChip® technology because it makes use of existing silicon chip production infrastructures eliminating the need for specialized production facilities.

The Company continues to refine its PowerChip® technology. Management believes further cost reductions can be gained as well as improvements in reliability and overall durability.

In January 2015, Neah announced it had successfully completed testing of PowerChip®-based units at a research and development site for the government of India. The Company has now entered into discussions with the governmental body in order to complete a licensing agreement, which management believes could result in a significant supply contract and licensing revenue.

The Company has also signed a letter of intent with one of the large US-based aerospace companies and has provided a scope of work and detailed milestones for commercial aviation application.

We see wide scale applications for this technology and can understand a scenario where this technology would be highly valued. However, we believe it will take some time to begin realizing substantial revenues from the PowerChip® technology as integration into systems where its benefits can be realized usually takes a considerable amount of time and expense for all parties concerned.

BuzzCell will, in the future, also be integrated into the Company's BuzzBar™ consumer power device.

Formic Acid Reformer – Potential to Solve Some of the Biggest Issues with Fuel Cell Adoption

As we outlined above, fuel cells rely on an electrochemical reaction between hydrogen and oxygen in order to produce electricity. Hydrogen can be delivered to the fuel cell in its pure form, which requires a constant supply of hydrogen typically housed in a separate tank. This, of course, presents safety challenges, as hydrogen is highly explosive. Reformer technology enables the use of hydrocarbon-based fuel sources, such as methanol or formic acid, where the hydrogen is extracted from the hydrocarbon and then introduced into the fuel cell.

While the use of a less volatile fuel, such as methanol, for some applications is a potential significant safety improvement over hydrogen, there are still risks. While methanol is significantly less volatile and explosive compared to pure hydrogen, it still presents safety and storage issues.

The use of formic acid as the “fuel” for fuel cells holds the potential to revolutionize current thought relative to the deployment of fuel cells in a variety of applications. In this section, we look into the use of formic acid and evaluate how Neah’s technologies could fit into the future adoption of fuel cells based on formic acid.

Essentially, formic acid could potentially solve the biggest problems relative to fuel cells - how do you acquire the hydrogen and how do you safely store the compressed hydrogen until it is needed. Formic acid could be integrated into the existing gasoline/diesel delivery infrastructure eliminating the issue of how to acquire the hydrogen. The issue of safety relative to hydrogen storage is eliminated, because the hydrogen is stored in the form of far less dangerous and far less volatile formic acid.

The Company, through an acquisition in late 2013, has demonstrated reformer technology that produces hydrogen using formic acid as the input, for which company has applied for two patents.

Formic acid is a very “weak” acid and is typically thought to be as dangerous as ordinary household cleaners. It is produced as a commodity chemical, is easily stored, and is widely available in the marketplace. Not only is storage much safer, but the production of formic acid is also potentially much more environmentally sound compared to production of other fuels. It is possible to produce formic acid utilizing carbon neutral techniques via partial oxidization of biomass or catalytic hydrogenation of carbon dioxide.

The really good thing about formic acid is it contains a lot of hydrogen.

When formic acid is heated it produces carbon dioxide and water and when certain catalysts are introduced it decomposes into hydrogen and carbon monoxide. The hydrogen can then be utilized by a fuel cell to produce electricity. The Company has already developed this technology for hydrogen fuel cells in 5, 10, 50, and 100 Watt configurations for demonstration purposes.

The use of formic acid as the fuel source could be utilized in large electrical grid and automobile applications eliminating the need for specialized technologies for dedicated hydrogen storage. Formic acid can be stored in already developed technologies at a significantly increased safety profile compared to that associated with hydrogen. Relative to automotive applications, one of the factors often discussed that limit the growth potential of hydrogen-based fuel cells is the cost associated with modifying the existing gasoline supply infrastructure. The use of formic acid in automobile applications would be much more compatible with the current fuel structure.

There are, however, drawbacks to formic acid. For example, one of the major issues that will need to be solved is that pure formic acid freezes at approximately 42°F. This is not a showstopper by any means as nearly 100% of gasoline sold on the market already has significant levels of additives such as, detergents, stabilizers, etc. It is thought that the 42°F freezing point of pure formic acid would only need to be lowered by approximately 5°F via the addition of additives, which would make the effective freeze point compatible with current automotive fuel cells. It is likely that formic acid blends for

automobile usage will likely be somewhere between 85% and 95% formic acid. Therefore, it is widely thought that the freezing issue relative to formic acid can be solved. It is simply an issue of additives, which is compatible with the current way of doing business in the fuel industry.

The Potential Importance of Neah's Formic Acid Reformer Technology

We believe that the Company's formic acid reformer technology is very important because it holds the promise to enable other companies to more quickly and more efficiently provide alternative energy initiatives, particularly relating to electric and hydrogen fuel-cell vehicles.

For example, a formic acid reformer-based hydrogen fuel cell would offer certain size advantages relative to the current state-of-the-art compressed hydrogen operated fuel cells. A smaller footprint would make it much easier for systems manufacturers, especially automotive manufacturers, to package such a fuel cell. It is also thought that there will be certain cost advantages compared to straight hydrogen operated fuel cells.

A formic acid reformer-based hydrogen fuel cell could easily be combined with an electrical based automotive drive system in order to meaningfully boost the mileage range. For example, in the May 2015 issue of *Motor Trend* magazine, one of the editors outlined that adding such a fuel cell to a Nissan Leaf would boost the cars range by approximately 200 miles. While, the adaptation would require the installation of a 16-gallon fuel tank, the retrofit would produce a car with some very interesting properties.

For example, one of the major drawbacks of hydrogen fuel cell powered automobiles as currently envisioned is the tank that holds the compressed hydrogen. In the application outlined above, the need to carry onboard compressed hydrogen would be completely eliminated. There is a significant body of primary market research on the potential for fuel cell vehicles, which points out that consumers have significant reservations about carrying around compressed hydrogen in their vehicle. Formic acid solves this problem eliminating the "hydrogen bomb carriage" issue.

The other major advantage, as is outlined partially outlined above, is that formic acid reformer technology combined into a battery operated electrical vehicle would allow for significant reductions in what the automotive industry calls, "range anxiety" which is the well-founded consumer fear that the electric car will run out of juice before it reaches its destination. Integration of formic acid reformer technology would enable cars to reach mileage ranges on par with automobiles that operate on gasoline.

The CEO of Neah has indicated that some preliminary talks have already taken place with automobile manufacturers.

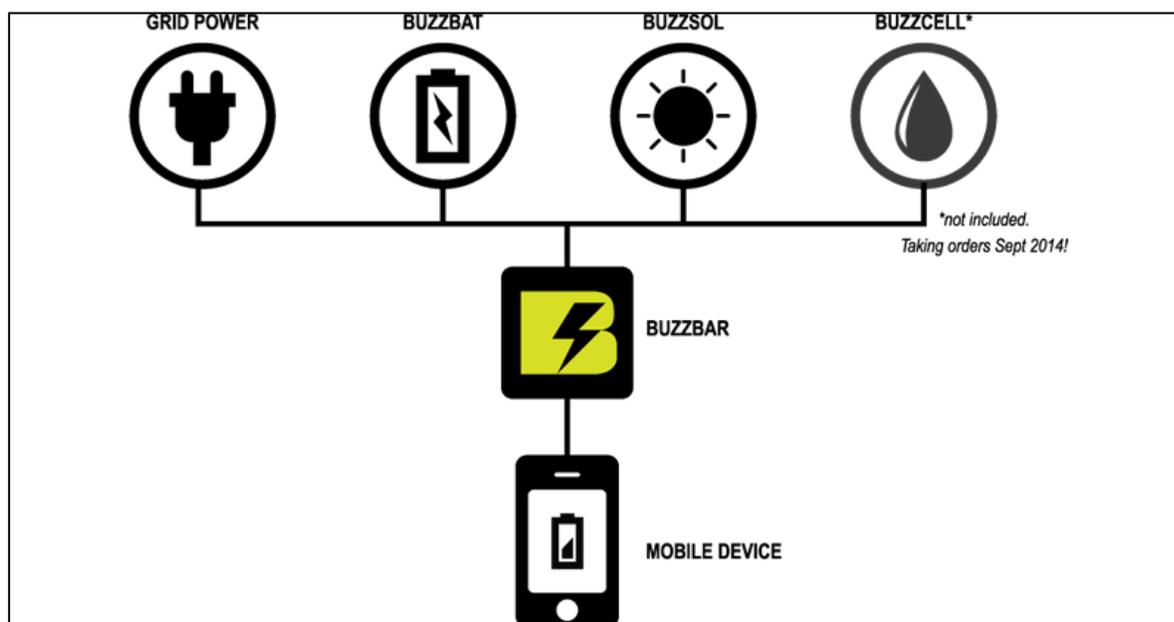
While fuel cells based on stored hydrogen offers significant benefits to the transportation industry, and other industries, there are still many significant hurdles that will have to be ironed out before mass scale adoption can take place. Front ending fuel cells with formic acid reformers could significantly speed the implementation of fuel cells, especially into the automotive marketplace.

With a strong intellectual property portfolio of formic acid reformer technologies, Neah could be at the forefront of helping the transportation, and other industries, adopt fuel cell technologies.

BuzzBar™ Suite

The BuzzBar™ suite is the Company's consumer-oriented product. The product is an integrated battery charger with unique capabilities allowing for a variety of sources to charge the lithium ion battery contained within the unit. The entire suite of products is shown in Figure Six.

Figure Six – The BuzzBar™ Suite Product Line



Source: Neah Power Systems, Inc.

As is shown in Figure Seven, the lithium-ion battery connects to small portable consumer devices, such as cell phones, iPad's, or cameras via a USB connector. While there are many products available on the marketplace today that allow for recharging of portable devices via a USB connected lithium-ion battery pack, Neah has added additional functionality that is unique.

Figure Seven – BuzzBar™ Main Unit Containing Battery



Source: Neah Power Systems, Inc.

With this product the lithium ion battery can be charged via a wall outlet, a portable solar panel provided by the company (called BuzzSol), a fuelcell (called BuzzCell), or ordinary AA or AAA batteries. The entire system is designed to be portable and small enough to be carried in a backpack or briefcase.

As shown in Figure Eight, the solar panels are modular allowing for up to three BuzzSol panels to be attached via a magnetic connection to the base unit. When all three panels are used at the same time battery charging time is significantly reduced being comparable to plugging the unit directly into a normal household outlet.

The battery will output 15Wh or 4400 mAh of energy, which is roughly the equivalent of two or three full charges of an average smart phone.

Figure Eight – Linked Solar Panels for the BuzzBar™



Source: Neah Power Systems, Inc.

BuzzCell Fuel Cell and the Formic Acid Connection

We are very excited about the BuzzCell product and the promise it holds to become the first true off the grid charging solution for consumer and other electronic devices. If the Company gets this product right, we believe it alone justifies the entire market capitalization of NEAH.

As we described above, the use of formic acid as a “fuel” for a fuel cell is highly innovative and offers significant safety and economic benefits compared other technologies. As we discussed above, use of formic acid to power automotive fuel cells makes a lot of sense. It also makes a lot of sense to use the technology to allow consumers, on a portable basis, to charge their consumer electronics products on-demand and at anytime, anyplace, they desire - a true off the grid device charging mechanism.

The BuzzCell product utilizes same manufacturing steps as the PowerChip® product, but uses different materials enabling the product to hit the lower price point needed for consumer-oriented applications. This technology was acquired as a result of an acquisition completed in late November 2013.

Whereas the PowerChip® technology is targeted at applications where the air quality is unpredictable or contaminated, or where there is no oxygen present, such as underwater, the BuzzCell product is designed for environments where the surrounding air can utilized in the electrochemical process. BuzzCell also produces lower power outputs compared to PowerChip®, which is often not an issue relative to consumer-oriented and mobile applications.

The unique feature of the BuzzBar™ charging suite product line will be the integration of a fuel cell. Integration of a fuel cell into the charging suite will create a truly off the grid, use anywhere, power solution for consumer-oriented mobile devices. The device would utilize a replaceable cartridge, which will contain the fuel and the supporting electrolyte that is needed for the electrochemical reaction to take place within the fuel cell. The system will automatically displace spent fuel to recharge the fuel cell with fresh fuel. The cartridge can then be disconnected.

The single most important thing that we believe will separate Neah’s product from the competition will be the use of formic acid as the “fuel” for the fuel cell. We see a significant market opportunity for

such a technology and believe the Company could potentially sell many units as it will likely be the first product of its type to market, with the competition still a considerable distance away for product introductions.

We discussed, formic acid and the advantages of its use in fuel cells in a section elsewhere in this report. However, the emphasis of that section is relative to automobile applications. The use of formic acid as the fuel for a power cell that can be used to power multiple consumer devices is unique and is likely to offer consumers significant benefits.

The Company continues to seek licensing and product sales opportunities not only in the commercial sector, but also in the commercial and defense industries. Management has commented on several occasions that it is in discussions with several retailers that have interest in carrying a product.

While the Generation 3 product is not yet shipping, we eagerly await product completion, as we believe this could be a very popular product enabling true off the grid powering for a multitude of portable computing and communication devices.

The Balance Sheet and Share Count

We believe it is important for investors to understand the basics of the balance sheet and, in particular, the situation relative to the convertible debt and preferred shares that are outstanding, both of which will eventually convert into common shares.

Fortunately, we do not believe the balance sheet is in particularly horrible shape relative to many developmental stage companies. Quite a bit of the debt is owed to insiders and affiliated parties, which are likely to show a lot of flexibility in repayment and/or conversion to common equity. While a lot of the other convertible debt does have some toxic features, we believe repayment or conversion to common shares will be a manageable process.

A significant amount of money has been invested into Neah in order to bring the Company's technologies through developmental stage and into the market place. In all, more than \$80 million has been invested to not only acquire technologies and intellectual property, but also on research and development and sales and marketing programs. As is often the case with companies that are attempting to productize sophisticated technologies, there have been delays, which have caused the Company to require additional investments.

As for the six-month period ending March 31, 2015, the Neah raised \$930,000 by selling convertible notes and preferred shares in order to support operations. During the March 2015 quarter, the Company spent approximately \$250,000 on R&D, \$374,000 on sales and marketing, and had general overhead of nearly \$200,000, totaling \$820,000 for the fiscal period. Of course, such spending is needed if the Company wishes to both produce robust products and move these products into the marketplace. The preservation of the Company's ability to raise money for future periods in support of such continued spending is vital.

In order to make an informed decision on investing in this Company it is very important to understand how the convertible debt and preferred shares will affect the total share count moving forward. In this

next section, we analyze more important sections of the balance sheet in order to determine potential shareholder dilution.

Inter Mountain Convertible Promissory Notes

As of the end of the March quarter the balance of the notes to Inter Mountain was \$538,853. Subsequent to the closing of the March period, \$108,750 was converted at a price of \$0.0046 resulting in approximately 26,000,000 shares being issued. Additionally, during June of 2015, Inter Mountain made in additional investment into Neah purchasing notes worth \$832,500, which are convertible at \$0.005, bring the total in notes from Inter Mountain to \$1,262,500, which are likely to convert into approximately 275 million common shares.

Rich Niemiec Convertible Promissory Notes

Notes owed to Mr. Niemiec are carried on the March balance sheet at \$400,000. To make the calculation conservative, we believe it is best to use the floor conversion price for these notes, which is \$0.003. Therefore, we believe it is going to cost shareholders approximately 135 million shares of dilution in order to remove these notes from the balance sheet.

Series B Preferred Stock

As of the end of the March quarter, there were 1,336,204 shares of Series B Preferred outstanding, recently 254,000 shares were redeemed, and 399,000 new shares sold, resulting in a balance of approximately 1.5 million shares. While the formula to derive the number of common shares to which these preferred shares will convert is a bit complex, we can assume the purchase price is \$1 and the conversion is 1.3 times the purchase price. If converted into common stock, at the approximate current valuation of \$0.005, common shareholders will experience dilution of approximately 385 million shares.

Cleaning the Balance Sheet – What Would it Take?

We know from the Company's early May SEC filing that there were approximately 1.2 billion shares outstanding prior to the subsequent events. We calculate that the convertible debt will convert to approximately 410 million shares and the Series B could be converted to an additional 385 million shares. If the corporate insiders converted the monies owed to them at approximately the current stock price, approximately \$622,000 of debt could be removed from the balance sheet via the issuance of approximately 125 million shares.

This would give us a total share count of the following:

Current outstanding	1.2 Billion
Conversion of convertible debt	.410 Billion
Conversion of preferred stock	.385 Billion
Conversion of Insider Debt (other)	<u>.124 Billion</u>

Total

2.12 Billion

The True Market Cap of Neah – It Does Not Look Unreasonable At All – Easily Can be Higher

Neah Power Systems has tremendous growth opportunities in its future. A company with such growth opportunities will likely spend most of its money on pursuing these opportunities rather than paying back insiders. Therefore, we believe it is very likely that the insiders who were owed money will eventually take stock in order to cancel out the debts.

The convertible debt will likely be converted to common equity at anywhere between the \$0.003 and \$0.005, which will create shareholder dilution, but nothing that is not absorbable into the capital table without too much pain. There could be quite a bit of variability in the number of shares to which the preferred stock converts, but if we just assume that it will convert at or around the current price, approximately 385 million shares of dilution will occur.

This leaves us with a theoretical true share count of approximately 2.12 billion and with the shares currently trading at approximately 1/2 cent we get a true total market capitalization of only about \$11 million.

Do not believe this is unreasonable for a company with such a strong patent portfolio and cutting edge technologies that are targeted at some very dynamic market areas.

But not believe a market capitalization of approximately \$11 million for this Company is in any way out of line. We can see situations occurring in the near and mid-term future that would support a much higher valuation and share price.

Significant Recent Announcements

- July 20, 2015 – The Company issued an update to shareholders. The update emphasized the Clear Path teaming agreement (described in detail elsewhere in the report), the status of the Shorai acquisition, product acceptance of the power chip fuel cell, and updates on the availability of products within the BuzzBar™ suite.
- June 22, 2015 - The Company entered into an agreement with its two investors who agreed to purchase \$322,000 worth of Series B Preferred stock.
- June 17, 2015 - The Company reached an agreement with Inter Mountain Capital for the sale of \$832,500 in convertible debt, which will result in a capital injection of \$750,000.
- June 16, 2015 - Neah announced that effective May 21, 2015, its agreement to acquire Shorai, Inc., has been extended amending the date for the Company to make the \$1 million cash payment to close the merger.
- June 5, 2015 - the Company entered into a teaming agreement for business development and systems integration with Clear Path Technologies for the Company's Formira HODTM (Hydrogen On Demand) fuel cell to the growing global security and defense market. Additionally, the parties signed a memorandum of understanding for distribution and resale.
- March 17, 2015 - The Company and Tectonica Australia announced an international partnership agreement to integrate the formic acid reformer into the Australian company's products.
- January 22, 2015 - The Company successfully completed testing of the PowerChip® units at a Defense Research and Development Organization (DRDO), Government of India facility and it had received payment of approximately \$165,000 for these initial test units.
- January 18, 2015 - The Company announced it has signed a definitive agreement to merge with Shorai, Inc., a leading provider of lithium ion-based power sports and starter battery solutions for the consumer motorsport industry. This merger is expected to be immediately accretive with Shorai reporting over \$4.0 million (unaudited) revenue in for the twelve months ended December 2014 and was cash flow positive for the fourth quarter of 2014. The combined organization, which will be called Neah Power Systems, will deliver a comprehensive suite of alternative energy power generation and storage solutions through a diverse portfolio of proprietary technologies, which include 12 patents and 15 patents pending.

Management

Dr. Chris D'Couto | President and Chief Executive Officer

Dr. D'Couto brings more than fifteen years of sales, marketing and product development experience to Neah Power. In his previous roles of increasing responsibility at Intel Corporation, Novellus Systems and FormFactor Inc. he was responsible for the introduction of new disruptive products that are critical to the success of these companies. Dr. D'Couto is the primary author of various patents, has published extensively in peer reviewed journals, and has been the invited keynote speaker at various forums. He has a Ph.D. in chemical engineering from Clarkson University, NY, and an MBA from the Haas School of Business, University of California, Berkeley.

David Schmidt | Acting Principal Financial Officer

As of July 2012, Mr. Schmidt is also serving as the company's Acting Principal Financial Officer, and has served on Neah's board since November 2010. Mr. Schmidt's previous experience includes senior management roles at Honeywell International Specialty Materials, Plasmion Corporation, Inc. Film Specialties, Inc. and Hydromer, Inc. Mr. Schmidt earned his B.S. in business and economics from Lehigh University.

Derek Reiman | Director of Manufacturing

Mr. Reiman has extensive experience in all aspects of Neah's proprietary technology, and has had roles of increasing responsibility in development, manufacturing, process transfer and system development. In his current role as Director of Manufacturing, Mr. Reiman is responsible for the silicon processing, production, cell and stack testing and quality control, and is working with the outsourced manufacturing supply chain to enable world class competitive products. Mr. Reiman has a B.S. in Metallurgical Engineering, with a focus on semiconductor processing, from the University of Washington.

Board of Directors

Jeffrey B. Sakaguchi | Chairman of the Board Member

Jeffrey Sakaguchi has served on our board since November 2010. Mr. Sakaguchi has served since 2009 as the Chairman of the Board of Directors of the American Red Cross, Greater Los Angeles Chapter where he has been responsible for the financial and organizational turnaround of chapter performance. From 2004 until 2007, Mr. Sakaguchi served as the President and Chief Operating Officer of Evolution Robotics Retail, Inc. In that role, Mr. Sakaguchi co-led a spin off of Evolution Robotics Retail, Inc. from its former parent company and developed and executed a commercialization strategy for a breakthrough visual scanning product targeted for the retail industry. From 1995 until 2003, Mr. Sakaguchi served as the Managing Partner for the North American Energy Strategy Practice at Accenture LLP in Los Angeles. From 1989 until 1995, Mr. Sakaguchi served as the Senior Engagement Manager at McKinsey & Company, Inc. in Los Angeles. Mr. Sakaguchi earned his bachelor's of science in chemical engineering from the Massachusetts Institute of Technology and his masters in business administration from the Wharton School of the University of Pennsylvania. Mr. Sakaguchi was chosen to serve on our Board because of his extensive business leadership experience with technology and emerging companies and his knowledge of the emerging fuel cell industry.

Dr. Chris D'Couto | Board Member

Dr. Gerard C. D'Couto has served as a member of our Board since January 28, 2008 and as our Chief Executive Officer and President since February 2008. Dr. D'Couto previously served as our Chief Operating Officer and Executive Vice President from September 2007 until February 2008. Prior to joining us, Dr. D'Couto served as senior director of marketing at Form Factor Inc. from January 2006 until September 2007, where he headed the launch of NAND flash and DRAM sort probe cards. Prior to that, Dr. D'Couto had a nine-year tenure at Novellus Systems, Inc., with positions of increasing responsibility ranging from product management to technology development and sales. Prior to that, Dr. D'Couto worked at Varian Associates and as a consultant to Intel Corporation. Dr. D'Couto

received a bachelor's degree in chemical engineering from the Coimbatore Institute of Technology in India and also received a master's and a doctoral degree in chemical engineering from Clarkson University in New York. Dr. D'Couto also earned an MBA from the Haas School of Business at the University of California, Berkeley. Mr. D'Couto was chosen to serve on our Board because of his management and operational skills from his business school education and past management positions as well as his technical knowledge related to our fuel cell technology.

David Schmidt | Board Member

David Schmidt has served on our board since November 2010. Mr. Schmidt has served since 2008 as an independent consultant advising chemical, material and alternate energy spaces regarding strategic marketing and execution services. From 2004 until 2008, Mr. Schmidt served as the Manager of Commercial Excellence and the Strategic Marketing Business Development Manager at Honeywell International Specialty Materials, Inc. From 2000 until 2003, Mr. Schmidt served as a Senior Director and Chief Operations Officer of Plasmion Corporation, Inc. Mr. Schmidt has also served in management positions at Film Specialties, Inc. from 1993 until 2000, Hydromer, Inc. from 1989 until 1992 and ROI Group, Inc. from 1986 until 1988. Mr. Schmidt earned his bachelor of science in business and economics from Lehigh University. Mr. Schmidt was chosen to serve on our Board because of his extensive executive and business development experience in technology industries.

Jon M. Garfield | Board Member

Jon M. Garfield has served on our Board since May 2008. Mr. Garfield is currently the CFO of Monte Nido LLC a behavioral healthcare treatment facility. He served as Chief Executive officer of technology company Clearant, Inc. (OTCBB: CLRA) from January 2007 until October 2010, and as Chief Financial Officer at Clearant, Inc. from September 2006 until January 2007. Mr. Garfield has served as a member of Clearant, Inc.'s board of directors from May 2007 until August 2010. From September 2001 through 2006, Mr. Garfield served as an independent financial consultant, including advising as to SEC reporting obligations and Sarbanes-Oxley compliance. From 1998 until 2001, he served as Chief Financial Officer of a telecom service provider and a software developer. From 1996 to 1998, he served as Vice President of Acquisitions for the formerly NYSE-listed ground transportation consolidator Coach USA, Inc. From 1991 to 1996, Mr. Garfield served as Corporate Assistant Controller of Maxxim Medical, Inc., a formerly New York Stock Exchange listed manufacturer and distributor. During 1986 to 1991, Mr. Garfield practiced public accounting with Arthur Andersen and PricewaterhouseCoopers. Mr. Garfield received a Bachelor of Business Administration in Accounting from University of Texas, Austin. Mr. Garfield was chosen to serve on our Board because of his past experience in chief executive officer and chief financial officer roles at public companies and because of his financial literacy.

William M. Shenkin | Board Member

William M. Shenkin has served on our Board since November 2013. Mr. Shenkin is currently the CEO and President of CeFO, Inc. Mr. Shenkin specializes in working with businesses and individuals in providing family office services for high net worth individuals, chief financial officer services including strategic business review and planning, monthly financial and accounting review, equity and

debt financing, buy/sell negotiations, and tax services. Mr. Shenkin's professional history encompasses 30 years of CPA, tax, audit and advisory services beginning with Ernst & Young, then Shenkin Kurtz Baker & Co. and presently CeFO, Inc. He is a member of the American Institute of Public Accountants and serves as a Board Member and Board Advisor for numerous companies and non-profits. Mr. Shenkin holds a M.A. in Accounting from Florida Atlantic University.

Disclosures:

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