

Trickle Research

Every raging river, every great lake, every
deep blue sea starts ... with a trickle



Research Update and Allocation Decrease



Aethlon Medical

(NASDAQ: AEMD)

Allocation Decrease

Report Date: 06/10/21

12- 24 month Price Target: \$9.00

Allocation: *3

Closing Stock Price at Initiation (Closing Px: 07/22/20): \$2.14

Closing Stock Price at This Allocation Decrease (Closing Px: 06/09/21): \$10.79

Prepared By:
David L. Lavigne
Senior Analyst, Managing Partner
Trickle Research

Disclosure: Portions of this report are excerpted from Aethlon Medical's filings, website(s), presentations or other public collateral. We have attempted to identify those excerpts by *italicizing* them in the text.

We initiated coverage of Aethlon in late July 2020. In that publication (as well as in a subsequent update) we noted “*we have followed the story for several years now. Over those years we have often been perplexed by the trading in the stock...*”. Yesterday, June 09, 2021, the stock certainly lived up to that billing as it finished at \$10.79 (and traded as high as \$12.49), which was up 388% from the prior day’s close of \$2.21. We have been doing this for a long time, but we cannot recall a more dramatic single day move in one of our coverage stocks. That said, when we noted that, it was in reference to the stock trading down rather than up, and we were just as perplexed then as we are today about why the stock seems to experience these pockets of extreme volatility.

Ostensibly, the stock’s move is related to comments and/or inferences around a June 3, 2021, news release from AEMD regarding the treatment of two Covid-19 patients with the Hemopurifier technology:

<https://ir.aethlonmedical.com/press-releases/detail/430/aethlon-medical-publishes-case-studies-of-two-critically>

To summarize, the release addresses two case studies regarding the treatment of two Covid-19 patients. For background, these are actually, patients #2 and #3 the Company has treated with Covid-19 *that we know of*. In prior updates we lamented the lack of clarity around patient #1. To cut to the chase, Hemopurifier has demonstrated the ability to remove glycosylated viruses from the blood of humans. That basically covers all the viruses known to attack human beings. Hemopurifier has been used to safely reduce viral loads of several dangerous pathogens including Ebola, so while the announcement is positive and topical in that regard, we do not think that most people who have been following the story should have found it particularly surprising.

On the contrary, the announcement did provide some support for another notion they (we) have also addressed in the past, which is Hemopurifier’s ability to not only filter/remove viruses but also exosomes. Recognize, the removal of exosomes is the basis of the Company’s efforts to address cancer via combination trials with Keytruda. However, again as our prior research addressed, the Company’s belief is that aside from cancer, exosomes may also play a major role in the complications of viral infection (in this case Covid-19). Specifically, the above release notes that the first patient was “critically-ill” from Covid-19 related indications including, “*coagulopathy (CAC), lung injury, inflammation, and tissue injury despite the absence of demonstrable COVID-19 viremia*”. To translate, at the time of their treatment with Hemopurifier, this particular patient did not have a high viral load (“viremia”). While the patient did have a high viral load prior, the disease had presumably progressed to where the virus itself was no longer the major issue, but rather the other complications it elicited. (That by the way is a recognized progression of Covid-19, which often includes indications such as “Cytokine Storm”). However, Hemopurifier presumably still demonstrated marked efficacy for the patient, and the inference is that the efficacy was related to the removal of exosomes which they were able to definitively measure. This perhaps supports the Company’s position that exosomes play a major (detrimental) role in various diseases and therefore removing them may lead to improved outcomes. Thus, Hemopurifier may provide a two-pronged approach in addressing viral pathogens by reducing both viral load, as well as exosome load, which may be applicable at varying stages of the disease, which might suggest the Hemopurifier could be efficacious over various stages of the disease.

While the above is reaffirming, we are not sure these case studies provided us with a great deal of insight that we did not already know (or at least *thought we knew*). As a result, we are a bit surprised it has taken the street this long to connect the dots, but again, perhaps we were operating under a “leap of faith” that was not as defined by traditional scientific rigor as it needs to be to declare efficacy. It still may not be for that matter. However, we are still sticking with the view that Hemopurifier can safely, reduce viral loads from glycosylated viruses, as well as reducing circulating exosomes. They have demonstrated that. On the other hand, the greater question is does reducing viral load and/or removing exosomes from circulation improve patient outcomes (and perhaps in multiple indications)? If the answer is “yes” then Hemopurifier is a game changer. By the way, we are still sticking with the view that the answer to that question is “yes”.

To reiterate, the stock has always perplexed us, albeit generally to the downside, and part of that is associated with the nuances around Hemopurifier, including its complicated path to approval, which is another issue we have covered extensively in the past. Regardless, we remain steadfast in the view (which apparently is gathering some momentum at least for the moment), that could be an extraordinary opportunity if they continue to demonstrate efficacy on multiple fronts.

As a side note, we would add, the Company used yesterday's advance to raise an additional \$12.4 million at \$9 per share. To their credit, management has done a good job of leveraging market volatility to raise money in the past, which has limited dilution. *Interestingly enough*, that raise was done at our established price target from July 2020. Funny how that happens.

As we said, we feel like the market is reacting to things they should have already gleaned, but again, perhaps that had more to do with us assuming things that perhaps were not supported by appropriate rigor. Regardless, here we are. That said, we initiated the coverage about 11 months ago at \$2.14 with a \$9.00 price target. Yesterday, the stock breached that threshold, which most of our readers know is a trigger for us to either; terminate the stock, or at least reduce our allocation, or raise our price target. To be clear, we have no problem raising our price target because our belief is that if the Company continues to make clinical progress towards demonstrating the efficacy of Hemopurifier, the stock is worth *considerably more* than our current target. On the other hand, at the time we initiated this, our price target was set at over 4X our initiating price, which at the time seemed like a big enough stretch. To be honest, we sometime have instances where we believe our price targets should be even higher than the multiples from their initiation prices that we are reflecting, but there comes a point where we think readers start to wonder if we are going off the rails. Aethlon is one of those names.

The above noted, we are reducing our allocation from 4 to *3 based on the marked advance in the stock, but we are going kick the can down the road a bit to see if we can gather some additional insights to address/support higher targets. Stay tuned.

Projected Operating Model

Aethlon Medical Inc.					
Projected Statement of Operations					
Prepared By: Trickle Research LLC					
	(Actual)	(Actual)	(Actual)	(Estimate)	(Estimate)
	<u>6/30/2020</u>	<u>9/30/2020</u>	<u>12/31/2020</u>	<u>3/31/2021</u>	<u>Fiscal 2021</u>
REVENUES:					
Grant Revenue	\$ -	\$ -	\$ 624,871	\$ -	\$ 624,871
Product Sales	\$ -	\$ -	\$ -	\$ -	\$ -
Cost of Sales	\$ -	\$ -	\$ -	\$ -	\$ -
Gross Margin	\$ -	\$ -	\$ 624,871	\$ -	\$ 624,871
OPERATING COSTS AND EXPENSES					
Professional fees	\$ 564,284	\$ 656,396	\$ 624,979	\$ 581,935	\$ 2,427,594
Payroll and related expenses	\$ 436,911	\$ 560,244	\$ 1,523,650	\$ 600,000	\$ 3,120,805
General and administrative	\$ 409,223	\$ 554,749	\$ 919,830	\$ 605,000	\$ 2,488,802
Other Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total operating expenses	\$ 1,410,418	\$ 1,771,389	\$ 3,068,459	\$ 1,786,935	\$ 8,037,201
OPERATING LOSS	\$ (1,410,418)	\$ (1,771,389)	\$ (2,443,588)	\$ (1,786,935)	\$ (7,412,330)
OTHER EXPENSE					
Loss on debt extinguishment	\$ -	\$ -	\$ -	\$ -	\$ -
(Gain) on share for warrant exchanges	\$ -	\$ -	\$ -	\$ -	\$ -
Interest and other expenses	\$ 728	\$ -	\$ (802)	\$ -	\$ (74)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total other expense	\$ 728	\$ -	\$ (802)	\$ -	\$ (74)
NET LOSS BEFORE NONCONTROLLING INTERESTS	\$ (1,411,146)	\$ (1,771,389)	\$ (2,442,786)	\$ (1,786,935)	\$ (7,412,256)
LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	\$ (863)	\$ -	\$ -	\$ -	\$ (863)
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ (1,410,283)	\$ (1,771,389)	\$ (2,442,786)	\$ (1,786,935)	\$ (7,411,393)
Basic net loss per share attributable to common stockholders	\$ (0.15)	\$ (0.15)	\$ (0.20)	\$ (0.15)	\$ (0.64)
Basic and diluted net loss per share attributable to common stockholders	\$ (0.15)	\$ (0.15)	\$ (0.20)	\$ (0.15)	\$ (0.64)
Weighted average number of common shares outstanding - basic	9,632,977	12,070,592	12,093,362	12,105,455	12,089,803
Weighted average number of common shares outstanding - basic and diluted	9,632,977	12,070,592	12,093,362	12,105,455	12,089,803

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Rating System Overview:

There are no letters in the rating system (Buy, Sell Hold), only numbers. The numbers range from 1 to 10, with 1 representing 1 "investment unit" (for my performance purposes, 1 "investment unit" equals \$250) and 10 representing 10 investment units or \$2,500. Obviously, a rating of 10 would suggest that I favor the stock (at respective/current levels) more than a stock with a rating of 1. As a guideline, here is a suggestion on how to use the allocation system.

Our belief at Trickle is that the best way to participate in the micro-cap/small cap space is by employing a diversified strategy. In simple terms, that means you are generally best off owning a number of issues rather than just two or three. To that point, our goal is to have at least 20 companies under coverage at any point in time, so let's use that as a guideline. Hypothetically, if you think you would like to commit \$25,000 to buying micro-cap stocks, that would assume an investment of \$1000 per stock (using the diversification approach we just mentioned, and the 20-stock coverage list we suggested and leaving some room to add to positions around allocation upgrades. We generally start initial coverage stocks with an allocation of 4. Thus, at \$1000 invested per stock and a typical starting allocation of 4, your "investment unit" would be the same \$250 we used in the example above. Thus, if we initiate a stock at a 4, you might consider putting \$1000 into the position ($\250×4). If we later raise the allocation to 6, you might consider adding two additional units or \$500 to the position. If we then reduce the allocation from 6 to 4 you might consider selling whatever number of shares you purchased with 2 of the original 4 investment units. Again, this is just a suggestion as to how you might be able to use the allocation system to manage your portfolio.

For those attached to more traditional rating systems (Buy, Sell, Hold) we would submit the following guidelines.

A Trickle rating of 1 thru 3 would best correspond to a "Speculative Buy" although we would caution that a rating in that range should not assume that the stock is necessarily riskier than a stock with a higher rating. It may carry a lower rating because the stock is trading closer to a price target we are unwilling to raise at that point. This by the way applies to all of our ratings.

A Trickle rating of 4 thru 6 might best (although not perfectly) correspond to a standard "Buy" rating.

A Trickle rating of 7 thru 10 would best correspond to a "Strong Buy" however, ratings at the higher end of that range would indicate something that we deem as quite extraordinary..... an "Extreme Buy" if you will. You will not see a lot of these.