Trickle Research

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

Allocation Upgrade

Aethlon Medical

(NASDAQ: AEMD)

Allocation Increase

Report Date: 08/13/21

12- 24 month Price Target: $9.00

Allocation: *4

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

Closing Stock Price at This Allocation Increase (Closing Px: 08/12/21): $3.82

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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.

Aethlon reported Q1-F22 earnings on August 9, 2021. The numbers were largely in line with our estimates, although given that they are a pre-revenue company, that is not particularly important. Put another way, they are spending money at a level largely in line with expectations so there were no surprises there. To that end we would add, the abrupt advance of the stock on June 9, 2021, when it traded as high as $12.49, provided the Company an opportunity to raise an addition $17.5 million. To put that into perspective, at the current burn rate, and cash at the end of June 30, 2021 of just over $25 million, it looks to us like current working capital could get them through the next 8 to 10 quarters. We would caution, that math might be compromised by additional/more extensive clinical trial activity, but clearly, the bump in the stock price and their associated raise was fortuitous, allowing them to raise necessary cash while limiting dilution. We would add, over the past few quarters, we think the Company has done a good job of taking advantage of spikes in the market price(s) of its shares to raise equity capital.

The above noted, we would retrace some thoughts from our last update.

First, in our last update, we decreased our allocation of AEMD shares largely because of the aforementioned run up in the stock. Specifically, our price target was/is $9.00 per share, so the breaching of that target precipitated our allocation downgrade based solely on that metric. That is a typical approach for us. We will revisit that in a moment.

Second, **we made an error in our last update**. Recall, just prior to that update, the Company released some information regarding two treated patients. Further, they also provided some information regarding an emergency authorization patient several months ago. That information was (in our view) incomplete, as the Company was waiting on some evaluation of data from that patient. As it turned out, again to our error, that patient was/is actually Patient #1 of the two the Company recently reported on. Just to recap, that particular patient at the time of treatment was not expected to survive, however, they were discharged from the hospital sometime after their Hemopurifier treatment. We would note, the other patient ("Patient #2") did not survive post treatment but was also determined to have died (primarily) from heart complications. In our view, the success of Patient #1 is telling, but there are some nuances to what we now know about that patient that are worth reviewing.

Today, we know that the Hemopurifier filters both viral pathogens and exosomes from the blood of treated patients. That notion is topical because over much of the past several years we have followed/covered AEMD, we have focused solely on the Hemopurifier's ability to filter viruses and in turn dramatically reduce viral load. To be clear, even in those prior periods, the Company was aware of/working on using the device to filter exosomes as well. However, at that time, the relationship/role of exosomes in disease was less understood than it is today, and even today that relationship is not as well understood as we would like it to be. That said, the Company believes, and many studies seem to support, that exosomes may play a key role in the acuity of diseases, which may include viruses and cancer. Obviously, that notion ties to their two current clinical trials evaluating Hemopurifier in covid and cancer.

More specifically, one of the things AEMD seems to have learned from Patient #1, is that covid *may* go through a progression that looks something like this.

- A patient is exposed to viral infection.
- over the next number of days, the patient experiences marked increases in viral load, which presumably may lead to more acute disease.
- At some point, viral load may begin to abate, but the patient becomes subject to other complications that may lead to more acute illness and perhaps even death. The Company believes that as that progression unfolds, at some point, the patient begins to shed exosomes, which contributes to more complications and poorer outcomes.

To reiterate, we know that Hemopurifier can filter virtually every glycosylated (sugar coated) viral pathogen known to infect human beings, and we know that Hemopurifier can filter exosomes. What we do not know is the *measurable* benefit of filtering these out of the bloodstream and/or when is the optimal time during the progression of disease to filter them out?

Again, to revisit some of our prior analysis, recall that Hemopurifier has been used to clear other (and frankly more deadly) viral pathogens from emergency use patients in the past, and that include perhaps most notably an Ebola patient. That particular patient was in a similar (moribund) condition as Patient #1 noted above. The Ebola patient also survived. As we recall, at the time there was some skepticism regarding the relative impact of the Hemopurifier treatment on the (Ebola) patient. Again, as we recall the narrative was that the patient was being treated with other therapies and no one could definitively say the patient's recovery was related predominantly or otherwise to Hemopurifier, or for that matter that the patient's reduction in viral load was the basis for their recovery. Given what we know today about the Hemopurifier's ability to filter exosomes, we have to wonder if the Ebola's patient's recovery may have been related in part (or in total) to the removal of circulating exosomes? That brings us to today.

As we often note in our research, we are generalists. To translate, we are not experts in medical devices and are certainly not experts in viral pathogens. That said, we think it is reasonable to assume that reducing viral load might improve outcomes for patients infected by viral pathogens. Moreover, given what science is learning about exosomes, it seems to us that the same could be said for removing exosomes. Given that, Aethon's challenge, and the basis of the current clinical trials, is to demonstrate better outcomes for the patients who receive the treatment(s) and to provide evidence of the mechanism of that success. To be clear, that challenge has some nuance that will determine their path forward. For instance, as we noted, better outcomes may be related to the reduction of viral load, or the removal of circulating exosomes, or both. The Company's clinical efforts will likely have to be able to delineate the relative impact of each. In addition, we think the optimal administration of the Hemopurifier may be different for various indications, and its efficacy may also depend on the stage of those different disease states. In other words, it is conceivable that treating a covid patient later in the progression of the disease may prove more efficacious than treating them earlier. The inverse may be true as well. The point is, answering those questions will likely be paramount to Hemopurifier's ultimate path to FDA approval.

With the above in mind, we are always a bit reluctant to put it in these terms, but with respect to assessing the Hemopurifier's impact on viral pathogens, the Covid pandemic has presented the Company with an opportunity that has historically eluded them. Succinctly, it provides them a population of infected patients that they can actually develop a bona fide clinical trial around. For a variety of reasons, that population has not existed in prior viral outbreaks where they were able to demonstrate efficacy, but on a very limited number of patients.

The above noted, it is important to recognize that while the pandemic has provided a population of infected patients, there have been a considerable number of other companies designing and conducting clinical trials in search of a covid therapeutic. For lack of a better term, Aethlon has been in a position of having to "wait its turn" in terms of enrolling its covid trial. In our view, the fact that the Hemopurifier is a medical device therapy (it is not a drug) has probably not helped its spot in the que. However, as we understand it from our discussions with management, their published/demonstrated success with Patient #1 has increased interest and awareness of its potential, which we think may help get the trial enrolled. In our view, news regarding enrollment of the trial will be a highly positive milestone that may finally allow them to demonstrate the efficacy of the device across a meaningful patient population. To be clear, being at the precipice of enrolling a trial with access to a clinically significant population (up to 40) of virally infected patients is a place the Company has neve been before. We believe this trial will go a long way towards validating or dismissing our long standing view that reducing viral loads and/or as it turns out, reducing exosome circulation will measurably improve patient outcomes. We would add, while we suspect most patients the Company treats in the coming weeks/months will come through the trial,

it is entirely possible that like the two patients noted above, they could end up treating additional people through their emergency use designation. In that case, they could end up with data beyond that collected in the trial.

In short, provided they get the trial enrolled, its game time.

We have been passionate supporters of Aethlon for several years now including through a few management changes, and our enthusiasm is based on the things we noted above that we know about the Hemopurifier's ability to reduce viral load across a broad spectrum of human viral pathogens and at the same time, remove circulating exosomes. Our view is that removing those things from a patient's blood stream will improve their chances of survival. We submit, that assumption could prove to be wrong, but again, for the first time in the Company's history, we think they are in a place where they can finally provide us with at least some of that answer. Moreover, to reiterate, we believe Hemopurifier could be a broad spectrum solution to treating human viruses we are aware of, as well as those on the horizon that we currently are not. We would add, their cancer trial is underway, which provides an additional shot on goal.

To recap, we lowered our allocation based on the recent advance of the shares, however, the shares have since retraced back under $4. As a result, we are increasing our allocation back to the original allocation of *4. For now, we reiterate our $9 price target, but we would add, while we submit that *marked risks* remain around the execution and success of their clinical endeavors, as we have seen with valuations of some of the few approved covid therapies, Aethlon's *potential* valuation remains quite open-ended and certainly well beyond our current targets.

Projected Operating Model

Aethlon Medical Inc.					
Projected Statement of Operations					
Prepared By: Trickle Research LLC					
	(Actual)	(Estimate)	(Estimate)	(Estimate)	(Estimate)
	6/30/2021	**9/30/2021**	**12/31/2021**	**3/31/2022**	**Fiscal 2022**
REVENUES:					
Grant Revenue	$ -	$ -	$ -	$ -	$ -
Product Sales	$ 131,966	$ -	$ -	$ -	$ 131,966
Cost of Sales	$ -	$ -	$ -	$ -	$ -
Gross Margin	**$ 131,966**	**$ -**	**$ -**	**$ -**	**$ 131,966**
OPERATING COSTS AND EXPENSES					
Professional fees	$ 583,469	$ 595,138	$ 607,041	$ 619,182	$ 2,404,830
Payroll and related expenses	$ 1,016,742	$ 1,028,943	$ 1,041,290	$ 1,053,786	$ 4,140,761
General and administrative	$ 630,068	$ 636,369	$ 642,732	$ 649,160	$ 2,558,329
Other Operating Expenses	$ -	$ -	$ -	$ -	$ -
Total operating expenses	$ 2,230,279	$ 2,260,450	$ 2,291,064	$ 2,322,127	**$ 9,103,920**
OPERATING LOSS	**$ (2,098,313)**	**$ (2,260,450)**	**$ (2,291,064)**	**$ (2,322,127)**	**$ (8,971,954)**
OTHER EXPENSE					
Loss on debt extinguishment	$ -	$ -	$ -	$ -	$ -
(Gain) on share for warrant exchanges	$ -	$ -	$ -	$ -	$ -
Interest and other expenses	$ 125	$ -	$ -	$ -	$ 125
Other Non-Operating Expenses	$ -	$ -	$ -	$ -	$ -
Total other expense	$ 125	$ -	$ -	$ -	$ 125
NET LOSS BEFORE NONCONTROLLING INTERESTS	**$ (2,098,438)**	**$ (2,260,450)**	**$ (2,291,064)**	**$ (2,322,127)**	**$ (8,972,079)**
LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	**$ (1,135)**	**$ -**	**$ -**	**$ -**	$ (1,135)
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	**$ (2,097,303)**	**$ (2,260,450)**	**$ (2,291,064)**	**$ (2,322,127)**	$ (8,970,944)
Basic net loss per share attributable to common stockholders	**$ (0.16)**	**$ (0.15)**	**$ (0.15)**	**$ (0.15)**	**$ (0.61)**
Basic and diluted net loss per share attributable to common stockholders	**$ (0.16)**	**$ (0.15)**	**$ (0.15)**	**$ (0.15)**	**$ (0.61)**
Weighted average number of common shares outstanding - basic	**12,828,816**	**15,401,753**	**15,417,155**	**15,432,572**	**15,417,160**
Weighted average number of common shares outstanding - basic and diluted	**12,828,816**	**15,401,753**	**15,417,155**	**15,432,572**	**15,417,160**

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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.