



OxySure Systems, Inc.

OTCQB: OXYS

October 30, 2014
Target Price: \$2.20
Recent Price: \$0.72

Market Data

Fiscal Year	December
Industry	Medtech
Market Cap	\$27.8M
Price/Earnings (ttm)	N/A
Price/Book (mrq)	21.7x
Price/Sales (ttm)	13.1x
Insider Ownership	43.9%
Shares Outstanding	38.6M
Equity Float	6.4M
Avg. Volume (3 mo.)	14,189

As of October 29, 2014

Income Statement Snapshot

TTM

Revenue	\$2.1M
Gross Profit	\$1.4M
Gross Margin	64.4%
Net Income	(\$0.9M)

Balance Sheet Snapshot

MRQ

Cash	\$0.02M
Debt	\$0.7M

Company Overview

OxySure Systems Inc. (“OXYS” or the “Company”) is a medical technology company focused on the design, manufacture and distribution of specialty respiratory and medical solutions. The Company has developed a unique platform technology whereby medically-pure oxygen is created instantly from two dry, inert powders, allowing oxygen to be delivered on demand. The launch product using this technology is called the OxySure Model 615. With Model 615, there are no compressed tanks, no dials, no valves, no regulatory maintenance, no hydrostatic testing, no batteries, and no required training, and the technology is both safe and easy-to-use for the layperson. Like an automated external defibrillator (AED) or fire extinguisher, it can be placed just about anywhere a medical emergency might occur to help improve medical outcomes and save lives by bridging the gap between a medical emergency and the arrival of first responders on the scene.

OXYS recently merged with Estill Medical Technologies, Inc. In this merger, the Company acquired the Thermal Angel blood and intravenous fluid infusion warmer. This product fills the void in pre-hospital, hospital, EMS, Air Ambulance, military and government settings when an easy to use solution is required to infuse warmed fluids into a patient. The Thermal Angel is the Company’s leading product that is procured by the U.S. military.

Value Proposition

Given that we expect OXYS to display rapid sales growth over the coming years, we believe that OxySure should be valued based on our FY17E revenue per share estimate of \$0.89. Applying a 2.5x P/S multiple to this figure derives a price target of \$2.20.

Investment Highlights

- OxySure’s Model 615 is a pioneering technology that is defining a new market with no direct competition
- First responders typically arrive 6-15 minutes following an emergency; damage from lack of oxygen can occur in as little as 3 minutes
- OxySure Model 615 is targeted for use in enormous end markets; over 100 million individuals at risk in U.S.
- Recurring revenue model leads to greater earnings predictability
- OxySure’s Model 615 has been cleared by the U.S. Food & Drug Administration for over-the-counter sales, along with receiving CE Marking approval. The Thermal Angel has received FDA approval
- Merger with Estill Medical Technologies projected to grow annual revenues to \$10M+; anticipated annual synergies of \$2-\$3 million
- Rapidly growing sales; 2Q14 revenue was up 42% YoY to \$678,111; merger with Estill grows revenues significantly while improving profitability
- Large addressable market for Thermal Angel; up to 66% of trauma patients have some degree of hypothermia; OxySure’s existing distributor relationships should help this product gain additional traction among Emergency Medical Services (EMS) and hospitals
- Estimated total market for OXYS products of \$1 billion; we believe upside exists to this market projection depending on product development and adoption in other market segments
- Future products are being developed for other vertical markets
- Strong long-term patent protection

Investment Highlights

OxySure's Model 615 is a pioneering technology that is defining a new market with no direct competition. OXYS's technology, which creates medically-pure oxygen from two dry, inert powders, allows oxygen to be safely and easily delivered on demand. Barriers to entry for other emergency oxygen systems such as compressed cylinders or chemical generators are their inadequate safety (risk of explosion, fire, environmental damage or toxicity), difficulty of usage (training and/or licensing is needed for operation), and more prohibitive pricing (\$369-\$899). These product factors have limited the use of other emergency oxygen generators to industries such as airlines, firefighter and mine rescue crews, submarines, and a few other industries where an emergency oxygen generator with a long shelf life is absolutely necessary. OXYS is safer (little to no risk of explosion, fire, environmental damage, toxicity, etc.), requires no training, and is more economically feasible at a cost of \$349. As the following diagram shows, using the OxySure Model 615 is very easy:



We believe that these factors give OXYS the ability to eventually enter not only the above listed markets, but also into much larger at-risk end markets for everyday emergency usage.

First responders typically arrive 6-15 minutes following an emergency; damage from lack of oxygen can occur in as little as 3 minutes. The gap for a first responder to arrive is often too long, as waiting this long for treatment in emergency situations could lead to irreversible damage, due to low oxygen levels in the body. This makes having a product such as the OxySure Model 615 on hand critical, providing a strong value proposition to millions of facilities and end users. In countries outside of the U.S., especially country's with poor healthcare infrastructure, this time frame can be significantly longer, thus making the OxySure Model 615 even more important in some overseas countries. The Company is targeting distribution both domestically and internationally.

OxySure Model 615 is targeted for use in enormous end markets; over 100 million individuals at risk in U.S. The Company is targeting end markets with millions of individuals. The following charts show OXYS's target markets:

"Placement" Markets

Facility	# of Facilities
OSHA Compliant Buildings	20,000,000
Homes and Apartments	116,000,000
MRI Centers	7,000+
K-12 Schools	100,000
Residential Swimming Pools	6,000,000
Restaurants	925,000
Manufacturing Facilities	350,000
Places of Worship	325,000
Golf Courses	16,000
Airports, Public Use Facilities, Sports Facilities	

"At Risk" Markets

At Risk Markets	# of Cases
Cardiovascular Disease	40 million diagnosed, 40 million undiagnosed
Chronic Obstructive Pulmonary Disease	16 million diagnosed, 14 million undiagnosed
	1.6 million in Long Term Oxygen Therapy (Back-Up)
Asthma	22.3 million
Private pilots	400,000
General medical & civil emergencies	
Travelers to higher altitudes	
Over 50	

The Company's initial distribution strategy is to have its OxySure Model 615 placed alongside automated external defibrillators (AEDs). AEDs currently have an install base of 2.2 million units. According to MarketsandMarkets, the global AED market was worth approximately \$616 million in 2012, and is projected to grow to approximately \$930 million in 2017. Assuming an average unit price of \$1,500, these figures estimate that approximately 620,000 AEDs worldwide will be sold in 2017. Approximately 60% of AEDs are sold in the U.S., with the rest sold internationally.

AED adoption was driven by the device's ability to save lives and its ease of use, even by untrained users, along with state and federal legislation. Liability protection was afforded to AED users through The Federal Cardiac Arrest Survival Act and U.S. Good Samaritan Laws. Additionally, The Aviation Medical Assistance Act requires that all commercial aircraft carry AEDs, and 19 states require that at least some of their schools have AEDs, along with 14 states requiring AEDs in health clubs. 19 states have no AED mandates at all.

The OxySure Model 615 exhibits the same characteristics of an AED (saving lives and ease of use). The Company's device can be used alongside an AED in the event of a sudden cardiac arrest (SCA); this provides the Company with a potential market unit size at least equal to AEDs. The Company has agreements with all of the major independent AED distributors in the U.S. (over 40 agreements in total), and has begun to enter into distribution agreements internationally (Europe, Australia, Asia, Middle East).

The OxySure Model 615 has the potential to ultimately reach a larger market than AEDs. Emergency oxygen is needed for a wider range of conditions (listed above in the at risk markets chart). People are 300 times more likely to need emergency oxygen than they are to need an AED. With statistics such as these, we believe that as more people become aware of this product's benefits, sales could

begin to spike significantly. Many videos have already been produced regarding this product's life-saving benefits, which can be found on OxySure's website: <http://www.oxysure.com/aed/index.php/saving-lives>. As of August 7, 2014, it was estimated that the OxySure Model 615 had been used in over 2,500 medical emergencies.

The Company believes that, ultimately, the install base for the OxySure Model 615 could be as large as fire extinguishers. While we believe this is optimistic, given that fire extinguishers are much cheaper than the OxySure Model 615, we think that, given enough time, emergency oxygen could become more common than AEDs, given its lower price point and a larger potential target population. A market that could eventually comprise a large portion of sales is the market for personal home use. AEDs have started to be purchased by homeowners, due to declining prices for AEDs, and the OxySure Model 615 is much more affordable than a typical AED. The need for emergency oxygen is most likely to occur within a person's home, making direct marketing to at-risk populations key for mass market adoption.

Given the strong value proposition that the OxySure Model 615 represents, the biggest factor in acceptance, in our view, will be increasing consumer awareness. OxySure is also in the early stages of pursuing legislation that could require the OxySure Model 615 to be available in certain facilities (similar agreements already exist for AEDs), giving facilities that use its products insurance benefits.

Recurring revenue model leads to greater earnings predictability

OxySure's Model 615 consists of a reusable housing and a replaceable cartridge, which must be replaced after each use or upon expiry of a 2-year shelf life. This gives the Company a recurring revenue stream that we anticipate will make up a greater percentage of revenues over time (due to more overall units being installed). This should decrease revenue/earnings volatility for investors and make the Company's devices sticky in the marketplace. As of June 30, 2014, replacement cartridges shipped represented approximately 39.7% of the Model 615's install base, and the Company reported that during 1Q14 that unit cartridge shipments exceeded Model 615 shipments (201% of Model 615 units shipped).

OxySure's Model 615 has been cleared by the U.S. Food & Drug Administration for over-the-counter sales, along with receiving CE Marking approval. The Thermal Angel has received FDA approval.

The Company's device is approved for over-the-counter sales without the need for a prescription. The Company is also working on receiving a second and final approval from the Australian Therapeutic Goods Administration (TGA) as well. The Company has already received an initial approval from the TGA to commercialize its product as a medical device under class IIa. These approvals ensure that the Company can sell its products in the world's most developed and lucrative markets.

The Thermal Angel has FDA approval, and the Company has stated that they are looking to obtain CE Mark approval as well.

Merger with Estill Medical Technologies projected to grow annual revenues to \$10M+; anticipated annual synergies of \$2-\$3 million.

On October 22, 2014, OXYS announced a merger with Estill Medical Technologies, developer of the FDA-cleared "Thermal Angel Blood and IV Fluid Infusion Warmer." The Thermal Angel is a life-saving medical device which is used as a standard of care by the U.S. Military to prevent hypothermia. The Thermal Angel is the Bound Tree Federal Division #1 product, which speaks to the quality and commercial viability of the device. Bound Tree Medical is a specialty distributor of emergency medical equipment, supplies, pharmaceuticals and product expertise for EMS professionals who provide pre-hospital and emergency care, including First Responders, EMTs and Paramedics. Bound Tree is the nation's largest supplier of EMS products, and following a recent merger with Tri-anim, generates annual revenues of over \$400 million. Hypothermia is the third most serious condition of a trauma patient, with mortality twice as high (53%) in patients with a Core Body Temperature <32°C compared with patients with a Core Body Temperature <34°C. The merger brings numerous benefits to the combined entity, including:

- A combined market size of almost \$1B (approximately 50% U.S.)
- Annual revenue of \$10M+
- Synergies of \$2-\$3 million; this includes revenue generating synergies (cross selling), product development synergies (could lead to improved product development over time), and overall cost savings

- Improved balance sheet, with a significant increase in shareholders' equity. The increase in shareholders' equity will ensure the Company meets requirements to upgrade to the NASDAQ or NYSE MKT
- Estill is cash flow and net income positive, ensuring an immediately positive impact to OXYS's financial statements
- We think that the deal terms are favorable: 12.5 million in restricted common stock (12 month lockup period), and 2.5 million warrants with a strike price of \$1.20
- Shares outstanding (not including warrants, which are currently out of the money) are increasing only 48% in this deal. With annual revenue projected to be \$10M+, revenue will show a much larger increase (assuming \$10M per annum, this would be an increase of 268%, assuming that OXYS's previous annual run rate revenue of \$2.7 million were to hold). Also, Estill will provide immediate cash flow and net income benefits. This makes OxySure look more undervalued in the marketplace, as current trading multiples are decreasing on the back of the acquisition.

Estill's main product, the Thermal Angel, should fit well with the OxySure Model 615, as both offer quick, easy, affordable solutions that save lives. To demonstrate the Thermal Angel's ease of use, step by step instructions are available at the Thermal Angel website: <http://www.thermalangel.com/documentation/thermal-angel-ta-200-blood-and-iv-fluid-infusion-warmer-directions-for-use/>

We believe that the Thermal Angel could see additional traction with OXYS's existing stable of over 40 U.S. distributors, while the OxySure Model 615 could see traction within the military, due to Estill's strong existing relationships (approximately 90% of Estill's revenue comes from the military).

Rapidly growing sales; 2Q14 revenue was up 42% YoY to \$678,111; merger with Estill grows revenues significantly while improving profitability.

OXYS has shown rapid growth with over eight consecutive quarters of double-digit growth, with five of these eight quarters representing triple-digit growth. The rapid sales growth indicates that the OxySure Model 615 is beginning to gain visibility in the marketplace. This growth was primarily in the United States, and was from new customers, repeat customers, and the military. The Company stated in its 2Q14 earnings call that its sales cycle has been shortening, due to the Company gaining sales experience and an improvement in brand recognition. Sales should continue to accelerate as this improves. In addition, OXYS has begun to launch its product through overseas distributors. The Company has entered into an agreement with Ajad Medical, which is the Company's exclusive distributor in Saudi Arabia. The contract has a minimum value of \$2.46 million and requires a minimum purchase of 18,000 units over the next three years in order for Ajad Medical to maintain its exclusivity. This essentially provides OXYS with almost guaranteed revenue over the next three years. Similar agreements include an exclusive distribution agreement with Aero Healthcare, which has a minimum purchase requirement of at least 4,500 OxySure Model 615 units, following both CE Marking and Australian Therapeutic Goods Administration (TGA) approval. In Hong Kong and Macau, OXYS has a three-year distribution agreement with Pacific Medical Systems, with a minimum purchase requirement of 11,800 units of the OxySure Model 615 and OxySure replacement cartridges. Additional countries that OXYS expects to enter include Thailand, Taiwan, Greece, Singapore, China, and other countries. The Company is currently in Brazil, Turkey, South Africa, Australia, New Zealand, UK, Netherlands, Belgium, Luxembourg, Hong Kong, Macau, and Chile (international markets comprised 28% of revenue in FY13). While we believe the U.S. will be the Company's primary source of sales, other distribution agreements should add additional quality revenue streams.

The merger with Estill should, based on information in the merger press release, lead to quarterly revenues of at least \$2.5 million (beginning in 1Q15, which will be the first full quarter following the merger). Estill is also cash flow and net income positive. OXYS reported a net loss of \$319,508 in 2Q14. Considering that Estill is net income positive, and the expected synergies of \$2-\$3 million, we expect that OXYS could begin reporting positive net income in FY15. The Company could also elect to reinvest its excess cash flow into sales and marketing and/or product development, which could delay the reporting of positive net income, although this would likely have a positive impact on long-term sales growth.

Large addressable market for Thermal Angel; up to 66% of trauma patients have some degree of hypothermia; OxySure's existing distributor relationships should help this product gain additional traction among Emergency Medical Services (EMS) and hospitals.

According to BCC Research, the global market for ambulance and EMS services is expected to increase to \$6.8 billion by 2018, at a 5-year CAGR of 2.9%. Within this market, the fastest growing segment is anticipated to be hypothermia prevention, which is projected to grow at a 6.7% CAGR. The strong growth in the hypothermia prevention segment indicates that this is a great time to

accelerate sales efforts for the Thermal Angel. OXYS's existing distributor relationships should help accelerate revenue of the Thermal Angel in non-military markets.

Estimated total market for OXYS products of \$1 billion; we believe upside exists to this market projection depending on product development and adoption in other market segments.

Company management estimates that its current market size is \$1 billion (50% U.S.). We believe that upside exists to this projection, particularly in additional untapped market segments and international markets.

Future products are being developed for other vertical markets

The Company has plans to eventually develop its OxySure Model 615 in other verticals:

- OxyPak for Military Special Forces/Commercial First Responders
- Self-Contained, Self-Rescuer Solution for the Mining/Navy markets (30M+ units)
- Consumable Flex-Pak for Sports & Recreation (100M+ units)
- Aviation (lay units/specialty applications)
- Automobile market ("Drop down" for deployment in any accident)
- Wound care/Skin care markets

Currently, the Company is working with the military on multiple projects, and we expect OXYS to begin working on some of the above markets at some point. Many of these markets already use emergency oxygen systems, so end users should be familiar with the product, which we think could help accelerate product adoption and the Company's sales cycle. We are not currently modeling sales from the above markets, so these applications present long-term upside to our projections.

Strong long-term patent protection.

OXYS has nine U.S. patents, two Australian patents, one South African patent, patents in additional countries, and other patents pending. The earliest patent expires in 2022, meaning the Company will have patent protection for a significant period of time.

Peer Comparison

Name	Ticker	Price	Market Cap	P/S (ttm)	P/S (FY14E)	P/S (FY15E)
Inogen, Inc.	INGN	22.88	410.58	4.4x	3.9x	3.2x
Invacare Corp	IVC	15.39	481.71	0.4x	0.4x	0.4x
Tenax Therapeutics	TENX	3.79	106.53	1116.4x	N/A	N/A
Allied Healthcare Products	AHPI	1.77	14.93	0.4x	N/A	N/A
Chart Industries	GTLS	46.26	1437.52	1.2x	1.2x	1.1x
DexCom, Inc.	DXCM	44.49	3333.02	16.6x	14.1x	10.5x
Insulet Corp	PODD	40.71	2285.56	8.4x	7.7x	6.3x
<i>Average</i>				<i>164.0x</i>	<i>5.4x</i>	<i>4.3x</i>
<i>Median</i>				<i>4.4x</i>	<i>3.9x</i>	<i>3.2x</i>
OxySure Systems	OXYS	0.72	27.79	13.1x	5.5x	3.0x

Valuation

Given that we expect OXYS to display rapid sales growth over the coming years, we believe that OxySure should be valued off of our FY17E revenue per share estimate of \$0.89. Applying a 2.5x P/S multiple to this figure derives a price target of \$2.20. While a 2.5x sales multiple off sales in FY17E could be considered aggressive, we believe that both of the Company's product lines (OxySure Model 615 and the Thermal Angel) have extremely strong growth potential long-term, and thus a higher sales multiple is applicable.

	1Q12	2Q12	3Q12	4Q12	FY12	1Q13	2Q13	3Q13	4Q13	FY13	1Q14	2Q14	3Q14E	4Q14E	FY14E	1Q15E	2Q15E	3Q15E	4Q15E	FY15E	FY16E	FY17E
Revenues, net	27,884	62,891	103,327	76,285	270,387	240,420	476,071	548,820	538,016	1,800,327	356,229	678,111	808,500	1,847,000	3,689,840	2,124,050	2,442,658	2,809,056	3,230,415	10,606,478	21,212,356	39,242,859
Cost of goods sold	12,703	25,156	50,472	55,419	143,750	53,181	152,472	111,110	173,556	490,319	205,590	264,856	307,230	683,390	1,461,066	765,899	903,783	1,039,351	1,195,253	3,924,268	7,848,572	14,519,958
Gross profit	15,182	37,735	52,855	20,866	126,637	187,239	323,599	437,710	364,460	1,310,008	150,639	413,255	501,270	1,163,610	2,228,774	1,358,152	1,538,874	1,769,705	2,035,161	6,681,992	13,363,784	24,723,001
Operating expenses																						
Research and development	60	1,175	579	24,002	25,816	36,711	183,447	134,357	1,500	356,015	1,541	275,974	225,000	461,750	964,265	467,291	537,385	617,892	710,691	2,333,359	3,393,977	3,924,286
Sales and marketing	2,430	18,134	7,234	104,135	131,933	107,347	133,730	77,841	83,238	353,156	87,949	154,044	169,448	221,640	633,081	318,608	366,399	421,358	484,562	1,590,927	4,030,348	9,418,286
Other general and administrative	280,995	237,445	198,997	389,341	1,107,076	256,617	230,651	266,320	391,718	1,089,135	345,757	259,230	235,000	434,045	1,274,032	446,051	451,892	463,494	468,410	1,829,847	2,012,831	2,214,114
Operating income (loss)	(268,303)	(219,019)	(153,955)	(498,612)	(1,138,188)	(213,436)	(224,229)	(43,808)	(111,996)	(488,298)	(294,608)	(275,993)	(128,178)	(46,175)	(642,604)	106,203	183,199	266,860	371,498	927,760	3,926,629	9,166,315
Other income (expenses)																						
Gain on settlement of debt	0	0	0	0	0	0	0	0	0	0	16,226	0	0	0	16,226	0	0	0	0	0	0	0
Other income (expense)	707	58,009	75,637	76,054	210,407	0	19,026	8,375	(1,575)	25,825	(331)	42,465	25,000	25,000	92,134	25,000	25,000	25,000	25,000	100,000	100,000	100,000
Interest expense	(57,855)	(57,462)	(55,461)	(46,240)	(217,018)	(28,716)	(26,734)	(47,180)	(54,310)	(249,979)	(107,607)	(85,980)	(115,000)	(125,000)	(433,567)	(125,000)	(125,000)	(125,000)	(125,000)	(500,000)	(500,000)	(500,000)
Total other expenses	(57,148)	547	20,176	29,814	(6,611)	(28,716)	(7,708)	(38,805)	(155,885)	(224,154)	(91,712)	(43,515)	(90,000)	(100,000)	(325,227)	(100,000)	(100,000)	(100,000)	(100,000)	(400,000)	(400,000)	(400,000)
Net income (loss)	(325,451)	(218,472)	(133,779)	(466,798)	(1,144,799)	(242,152)	(231,937)	(82,613)	(267,881)	(712,452)	(376,320)	(319,508)	(218,178)	(53,825)	(967,831)	6,203	83,199	166,860	271,498	527,760	3,526,629	8,766,315
Diluted net income (loss) per common share	(\$0.02)	(\$0.01)	(\$0.01)	(\$0.02)	(\$0.06)	(\$0.01)	(\$0.01)	(\$0.00)	(\$0.01)	(\$0.03)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.00)	(\$0.03)	\$0.00	\$0.00	\$0.00	\$0.01	\$0.01	\$0.08	\$0.20
Weighted average common shares outstanding																						
Diluted	17,844,462	19,807,432	20,761,595	21,093,749	19,880,342	22,665,515	23,167,439	24,076,789	25,092,357	23,754,402	25,889,334	25,996,642	26,500,000	35,250,000	28,408,994	44,163,309	44,163,309	44,163,309	44,163,309	44,163,309	44,163,309	44,163,309
Gross Margin	54.4%	60.0%	51.2%	27.4%	46.8%	77.9%	68.0%	79.6%	67.7%	72.8%	42.3%	60.9%	62.0%	63.0%	60.4%	63.0%	63.0%	63.0%	63.0%	63.0%	63.0%	63.0%
R&D as % of rev	0.2%	1.9%	0.6%	31.5%	9.5%	15.3%	38.5%	24.6%	0.3%	19.8%	0.4%	40.7%	27.8%	25.0%	26.1%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	10.0%
S&M as % of rev	8.7%	28.8%	7.0%	136.5%	48.8%	44.8%	28.1%	14.3%	15.5%	19.6%	24.7%	22.7%	21.0%	12.0%	17.2%	15.0%	15.0%	15.0%	15.0%	15.0%	19.0%	24.0%
G&A as % of rev	1007.7%	377.6%	192.6%	510.4%	409.4%	106.7%	48.4%	48.8%	72.8%	60.5%	97.1%	38.2%	29.1%	23.5%	34.5%	21.0%	18.5%	16.5%	14.5%	17.3%	9.5%	5.6%

Risks

There could be further dilution, as the Company may need to raise capital to finance sales and marketing expenses or further product development. However, the recent merger is expected to strengthen the Company's balance sheet.

Other medical device companies could create competing solutions, as can be seen in the AED market, which has multiple competitors. However, OXYS has a first-mover advantage which can help it to achieve an install base before competing solutions enter the market.

OXYS relies heavily on third-party distributors to sell its products. However, a portion of this risk is mitigated through minimum purchase agreements.

As sales increase, the Company will need to prove it can effectively manufacture a larger amount of products without significantly hurting product quality or margins

The Company will need to prove that it can effectively combine operations with Estill Medical Technologies; any difficulties could hurt sales and/or earnings projections.

Additional Information

Legal: K&L Gates, The Law Firm of Gregory G. Jones, P.C., The Johnson Firm, Horzepa Spiegel & Associates, PC

Auditor: Sadler, Gibb & Associates, LLC

Transfer Agent: Action Stock Transfer

[Company Website](#)

[Additional Company Information](#)

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