

Research Update

Investors should consider this report as only a single factor in making their investment decision.

OxySure Systems, Inc.

Rating: Speculative Buy

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August 21, 2014

OXYS \$0.73 — (OTCQB)

	2012A	2013A	2014E	2015E
Total revenues (in millions)	\$0.27	\$1.8	\$2.6	\$4.9
Earnings (loss) per share	(\$0.04)	(\$0.03)	(\$0.03)	\$0.00

52 - Week range	\$0.90 – \$0.51	Fiscal year ends:	December
Shares outstanding as of Aug. 13, 2014	26.1 million	Revenue/share (ttm)	\$0.08
Approximate float	3 million	Price/Sales (ttm)	9.0X
Market Capitalization	\$19.0 million	Price/Sales (2015)E	4.2X
Tangible Book value as of June 30, 2014	\$0.02	Price/Earnings (ttm)	NA
Price/Book	38.9X	Price/Earnings (2015)E	NA

OxySure Systems, Inc., based in Frisco, Texas, manufactures and markets the OxySure Model 615, a low cost, lightweight portable emergency device that administers acute oxygen therapy. The FDA-approved Model 615 is designed to be prepositioned in public settings for use by laypersons when life-threatening medical emergencies occur. The Model 615 aims to deliver emergency oxygen therapy before first responders arrive at the scene of medical emergencies. OXYS also distributes automatic external defibrillators manufactured by all of the major producers.

Reiterating Speculative Buy and maintaining a (12-month) price target of \$2.10.

OxySure's oxygen generating technology has lifesaving potential in the treatment of cardiac arrest, acute asthma or pneumonia, severe trauma, smoke inhalation, carbon monoxide poisoning and air embolism.

OXYS's Model 615, easy to use and quickly brought to bear, is a highly suitable companion for automatic external defibrillators (AEDs). There are an estimated 2.2 million AEDs in service worldwide, roughly 60% of them in the US. OxySure aims to position the Model 615 alongside AEDs in public and private venues.

European regulatory approval and distribution agreements covering Europe, Asia and South America will support strong revenue gains. The company recently secured the first of two Australian regulatory approvals. As the OxySure Model 615 gains traction, revenue should increase to \$18 million by 2017.

We project narrowing losses as revenue ramps from \$1.8 million in 2013 to \$4.9 million in 2015. By our estimates OXYS should break even in 2015.

Equity raised in 2013 has strengthened the company's balance sheet considerably, potentially enabling OXYS to cover cash needs through 2015 without further borrowing.

In 2Q14 (results released Aug. 14, 2014), OXYS earned revenue of \$356,000, up 48%, but incurred a loss of (\$0.02) per share. We projected a loss of (\$0.01) per share on revenue of \$458,000.

We project continued losses in 2014 but a sharp increase in revenue should enable the company to break even and turn cash flow positive in 2015.

See disclosures on pages 14 - 16

Investment Recommendation

Reiterating Speculative Buy with a (12-month) price target of \$2.10.

A comparison group of 130 medical device and instrument stocks with market values under \$250 million is trading at a trailing price to sales multiple, excluding outliers, of 6.4X vs. 9X for OXYS. Three months earlier, the comparison group and OXYS were trading, respectively, at 7.3X and 11.2X trailing sales. The market has clearly accorded the stock a valuation is based on anticipation of significantly higher revenue.

We value the stock at 7X estimated 2017 revenue per share of \$0.63, a target of \$4.40, which we have discounted by 25% to a year-ahead value of \$2.10. Our discount reflects acceptance and execution risks. Our target is based on an estimated 29 million shares outstanding in 2017, reflecting shares, warrants and options outstanding as of June 30, 2014 as well as shares issued due to projected conversions through 2015.

In our view, acceptance and execution risks make OXYS shares suitable mainly for highly risk-tolerant accounts.

First Australian Regulatory Clearance

On June 24, 2014, OxySure announced the first of two regulatory approvals by Australia's Therapeutic Goods Administration (TGA) of the OxySure Model 615 effective June 2, 2014.

Under an exclusive March 2013 distribution agreement (March 2013), Aero Health Holdings Limited (Australia), is committed to a minimum quantity of Model 615 purchases during the first two years following Australian regulatory clearance.

Overview

Oxysure was founded in 2004 and went public in 2011. In 2005 the Food and Drug Administration granted the Model 615 oxygen generator 510-K clearance for over the counter sale. The 615 is approved for emergency use only. The Model 615 also has CE Mark approval, enabling OXYS to launch the product in 30 countries of the European Economic Area. Under a military subcontract, the company sells oxygen generator components to the US government.

In early 2013 the company started distributing automatic external defibrillators. The company sells replacement single-use oxygen cartridges, and face mask and tubing systems, and replacement batteries and other AED-related supplies.

The Model 615 was introduced to US school districts in 2008. Most of the company's sales have been to educational facilities in more than 40 states but distribution has broadened to commercial markets. Sales have increased steadily since 2010 and rose sharply in 2013. In addition to oxygen generators, OxySure also distributes automatic external defibrillators (AEDs), which are widely used to resuscitate cardiac arrest patients.

Oxysure's technology rapidly generates medically pure oxygen by combining two inert powders, obviating the need for storage cylinders or tanks. The OxySure Model 615 can be prepositioned in educational institutions, manufacturing facilities, commercial and government office buildings, sports stadia, restaurants, airports, military installations and a wide variety of other public venues for emergency administration of acute oxygen therapy by untrained non-medical persons. Broad emergency application potential prior to arrival of first responders or admission to an emergency medical treatment facility underlies the appeal of the Model 615.

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Oxysure's technology offers lifesaving potential in cases of major adverse cardiac events, severe trauma, and respiratory distress. The design of the Model 615 eliminates or minimizes the risks of fire or explosion seen in other portable oxygen delivery systems.

OxySure sells its products through more than 40 independent commission agents in the US and overseas distributors in Australia and New Zealand, the UK, Brazil, South Africa and Turkey.

One of the company's initial objectives is positioning the Model 615 alongside automatic external defibrillators, which are widely sold in markets targeted by Oxysure. Worldwide, there are an estimated 2.2 million AEDs currently in service, roughly 60% of those in the US and another 30% in Japan. Market penetration potential is very high. If OxySure successfully positions its Model 615 together with a modest number of the AED's in service, revenue potential would be substantial.

Outlook

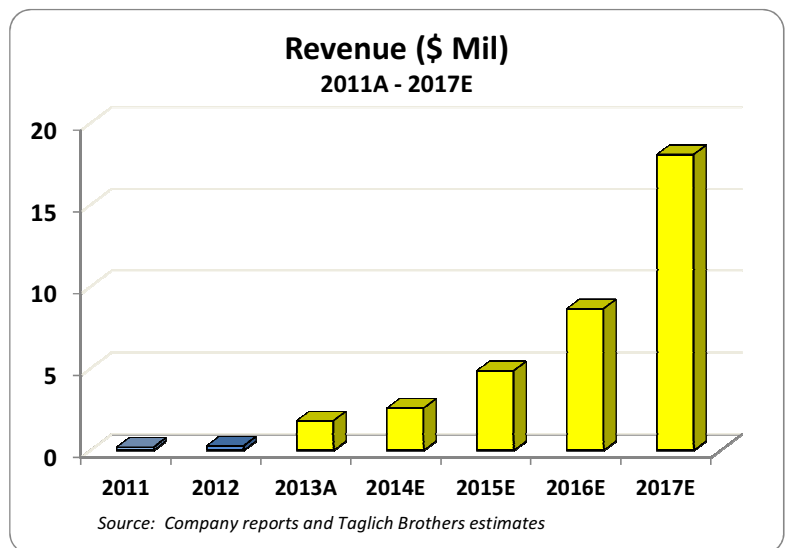
There is substantial revenue potential for an effective, FDA-approved low-cost acute oxygen therapy system that is safe, easy to use and can be operated by untrained non-medical personnel. The National Center for Health Statistics reports 130 million visits to US emergency rooms in 2010. Most of these visits were not for severe or life threatening conditions, but emergency room diagnoses suggest that millions might have been. In 5.4 million visits, patients were diagnosed with chest pain and another 6.4 million with abdominal pain. There were 4.1 million cases of acute respiratory infection and 1.8 million cases of asthma. There were also 29,000 cases of accidental falls, and 10.5 million cases of injuries sustained in traffic accidents.

The benefit of acute oxygen therapy is probably demonstrated most clearly in first aid, or pre-hospital care of cardiac arrest patients. In the US, there were 382,000 cases of out-of-hospital cardiac arrest in 2012. Cardiopulmonary resuscitation was attempted on only 41% of them.

Longer term potential for emergency treatment devices such as AEDs and the Model 615 could rest on their availability in the home market. Most victims suffer cardiac arrest at home, where AED placement is low, rather than in public places. Of the 383,000 US cardiac arrest cases in 2012, only 11% survived (to hospital discharge), a dismal rate that some medical practitioners attribute to lack of defibrillators in the home. AED prices (they can range up to \$2,000) and reimbursement issues probably limit patients' ability to purchase them for home use.

Oxysure would arguably optimize its initial impact by positioning the Model 615 in the same sites where AEDs have been installed, enabling cardiac arrest patients access to acute oxygen therapy as well as defibrillation. There are an estimated 2.2 million AEDs in service worldwide, 60% of those in the US and another 30% in Japan. Industry research services estimate that AED sales are increasing at around 10% annually, reflecting the increasing incidence of major adverse coronary events as the population ages, heightened awareness and wider public availability of AEDs, and a gradual decline in prices.

From an estimated \$255 million, or 102,000 units, in 2002, AED global sales are projected by GII Research to increase to \$837 million, or approximately 875,000 units, by 2017. Based on estimated historical annual AED sales and an average service life of 7.5 years,



we estimate the number of AEDs currently in service at 2.2 million units, a figure that should increase to an estimated 3.8 million by 2017.

If Model 615 unit sales ramp to as little as 5% to 6% of AEDs sold annually by 2017, the company's annual revenue should grow to \$18 million (see chart on page 3).

Strategy

The company is positioning the Model 615 as a companion product to AEDs, with placements alongside as many AEDs as possible. In the long term the Model 615 could become a standard issue emergency treatment device in public and private settings, including private homes. Cost makes a persuasive case for installing emergency oxygen generators next to AEDs; the Model 615 is priced at around \$350, a fraction of an AED's \$1,500 to \$2,000 price. OxySure's addition of AED's to its product line aims to broadly support its sales efforts by offering distributors another major first-aid technology to market to the same call point as the Model 615, and expanding the company's presence in medical emergency markets.

OXYs aims to increase penetration of school districts and educational institutions, and continue its expansion into other commercial markets, including places of worship, manufacturing facilities and government and office buildings. As a government subcontractor, the company has earned revenue from US military purchased from a prime contractor.

OxySure sells its Model 615 through more than 40 independent US distributors that sell AEDs, medical products and safety products. The company is expanding its international presence, developing relationships with distributors and manufacturers in medical emergency and industrial safety equipment markets. Earlier this year, the company's Model 615 portable emergency oxygen device was granted CE (Conformité Européenne) mark approval, a recognition that the 615 conforms to the European Economic Area's safety, health, and environmental protection standard. The CE mark enables OXYs to market the Model 615 in all 27 member states of the European Economic Area, plus Norway, Switzerland and Turkey.

Under exclusive distribution agreements (March 2013), Aero Health Holdings Limited (Australia) and Aero Healthcare Limited (UK) will distribute OxySure's products in Australia, New Zealand and the UK. Aero agreed to apply for a CE Mark as well as Therapeutic Goods Administration (TGA) approval from Australian regulators. Under these agreements, Aero Healthcare is committed to purchase a minimum combined quantity of 4,500 OxySure Model 615 units during the first two years after CE Marking and TGA approval.

In an initial (December 2013) three-year distribution agreement, Hong Kong-based Pacific Medical Systems, Pacific will distribute the Oxysure Model 615 portable oxygen generator and replacement oxygen cartridges in Hong Kong and Macao. Pacific has made a minimum sales order commitment of 11,800 units of the OxySure Model 615 and OxySure replacement cartridges over the term of the initial three-year agreement.

The company also has overseas distributors in Brazil, Chile, South Africa and Turkey.

Projections

Operations Revenue growth will be driven by sales of the Model 615 and single-use oxygen cartridges. Cartridges must be replaced at least once every two years, an annualized replacement rate of at least 50% of 615s in service, excluding replenishment due to their use. For 2Q14, the company's cartridge replacement rate increased to 40%, up from 39% in the prior quarter. Sales should begin to accelerate sharply by 2015, rising to \$4.9 million from \$1.8 million in 2013 as widening acceptance gives the Model 615 greater traction. Our sales forecast is based mainly on a rise in unit sales of the model 615 to almost 8,000 by 2015 and concomitant gains in sales of oxygen cartridges.

Overseas product sales gains should accelerate in 2H14. With CE marking obtained earlier this year, the Model 615 is cleared for marketing in the UK, Belgium, Luxembourg, and the Netherlands. Sales in Australia and New Zealand should begin with Australia's TGA clearance, part of which has already been granted.

Model 615 unit sales could double between 2015 and 2017. While sales to the government under a military subcontract ended in 4Q13, a new subcontract agreement could renew sales to the US military by 3Q14.

We project a 2014 loss of \$894,000, or (\$0.03) per share, on revenue of \$2.6 million. We previously projected 2014 loss of \$732,000, or (\$0.03) per share, on revenue of \$2.5 million. Our revised 2014 estimates reflect 2Q14 results, which include resurgence in sales that offset a 1Q14 dip stemming from production interruptions as the company retooled to accommodate overseas customers' design preferences. Our 2015 projections – breakeven EPS on revenue of \$4.9 million - are unchanged.

License, royalty and service revenue will recur to the extent that OXYS initiates new agreements covering different marketing areas but we anticipate no more substantive revenue from these sources for the rest of our forecast period. We anticipate narrowing expense margins as the business expands. Operating losses should narrow from \$1.1 million in 2012 to an estimated \$596,000 in 2014. Rising revenue in 2015 should enable the company to earn an operating profit of \$371,000.

Finances The issuance of equity shares in 4Q13 has significantly improved the company's balance sheet. But although OXYS shows a tangible equity position, its balance sheet is highly leveraged.

Borrowings should remain stable at around \$300,000 through the end of 2015. By our estimates, OXYS will turn cash flow positive in 2H14 and show some cash earnings in 2014. Our cash flow forecast reflects expiration of the debt moratorium agreement with Vencore and a \$309,000 payment of capital leases in 1H14. As operations become profitable, cash earnings should increase cash balances to \$458,000 and \$923,000 by the end, respectively, of 2014 and 2015.

2014 Second Quarter and First Half Results

Operations In 2Q14 OXYS incurred a loss of \$320,000 or (\$0.01) per share, on revenue of \$678,000. We projected a 2Q loss of (\$0.01) per share on revenue of \$525,000. In the year-earlier quarter, the company lost (\$0.01) per share on revenue of \$476,000.

2Q14 revenue was up 42% to \$678,000, due to an 87% increase in US product sales. OXYS showed a nominal amount of overseas product sales and earned no overseas license or service fees. 2Q sales showed a strong sequential gain; in 1QA14, sales slowed due to production interruptions relating to retooling needed to accommodate overseas markets' product design preferences.

Gross profit increased 28% to \$413,000 due to the increase in revenue. But the gross margin compressed to 61% from 68% due to the decline in higher-margin license and service revenue. In 2Q14, OXYS earned no such revenue, vs. \$113,000 in the year-earlier quarter.

Operating expenses increased 35% to \$689,000 due mainly to an increase in R&D expenses, which were up 50% to \$276,000, and a 33% increase in G&A expenses to \$259,000.

As the increase in operating expenses exceeded gross profit gains, the company's operating loss for 2Q widened to \$276,000 from \$188,000. Interest expense increased more than threefold to \$86,000, reflecting accrued interest relating to notes payable and non-cash interest related to debt discount amortization and amortization of warrant fair values.

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Replacement oxygen cartridge reorder rates increased to 40% of the known installed number of Model 615s at the end of 2Q14 from 30% at the end of the prior quarter.

In the six months ending June 2014, the company lost (\$0.03) per share on revenue of \$1 million, vs. a loss of (\$0.02) per share on revenue of \$716,000 for 1H13. Six-month revenue was up 44% to \$1 million as US product sales doubled to \$979,000 and overseas product sales increased to \$38,000 from \$1,000. Gains in product sales were offset in part by a 93% drop in overseas license and service revenue to \$18,000 as licensing activity was largely completed.

	Quarter ending June 30:			'14 vs. '13 % +/-	Six Mos. ending June 30:		
	2014A	2014E	2013R		2014	2013	% +/-
Revenue	678	525	476	42%	1,034	716	44%
Cost of revenue	265	184	152	74%	470	206	129%
Gross profit	413	341	324	28%	564	511	10%
Expenses							
R&D	276	105	183	50%	278	220	26%
Sales & marketing	154	131	134	15%	242	241	0%
G&A	259	210	195	33%	605	487	24%
Total	689	447	512	35%	1,124	949	19%
Operating loss	(276)	(105)	(188)	46%	(560)	(438)	28%
Other income (expense)	42	50	19		58	19	207%
Interest expense	(86)	(103)	(24)	265%	(194)	(55)	249%
Net income (loss)	(320)	(158)	(193)	66%	(696)	(474)	47%
Average shares out. (000)	25,997	26,389	23,167		25,957	22,918	
Earnings (loss) per share	(0.01)	(0.01)	(0.01)		(0.03)	(0.02)	30%
Margin Analysis							
Gross margin	61%	65%	68%		55%	71%	
R&D	41%	20%	39%		27%	31%	
Sales & marketing	23%	25%	28%		23%	34%	
G&A	38%	40%	41%		58%	68%	

Source: Company reports and Taglich Brothers estimates

Gross profit for 1H14 increased only 10% to \$564,000, reflecting weak leverage of manufacturing costs, tilt in the sales mix to third-party products and the decline in higher-margin license and service revenue, all of which narrowed the gross margin to 55% from 71%.

Operating expenses were up 19% to \$1.1 million driven mainly by a 24% increase in G&A expenses and a 26% increase in R&D expenses to \$278,000. Without any leverage of expenses, the company's operating loss widened to \$560,000 from \$438,000. Interest expense increased to \$194,000 from \$55,000, reflecting increases in accrued interest relating to notes payable and non-cash interest related to debt discount amortization and amortization of warrant fair values.

Finances In 2Q14 OXYS burned \$308,000 in cash and reduced working capital by \$15,000, the net effect of an increase in receivables and an increase in payables. Cash of \$293,000 used in operations, offset in part by cash received on convertible note, reduced cash by \$129,000 to \$22,000.

In 1H14, OXYS burned \$570,000 in cash and reduced working capital by \$39,000, with a sharp increase in receivables offset by an increase in payables and a reduction in prepayments. Cash of \$532,000 used in operations, capital expenditures of \$71,000 and payments on notes and loans to related parties, partly offset by cash received on convertible notes, reduced cash by \$636,000 to \$22,000 as of June 30, 2014.

Debt In January 2014 OxySure Systems announced the conversion of \$967,000 in notes and other indebtedness outstanding as of December 31, 2013 to approximately 1.5 million restricted common shares. Roughly half of the debt converted consists of notes payable to the company's landlord, and accrued interest on those notes. The rest of the indebtedness included deferred rent and accrued interest. The notes were converted to common shares at a

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conversion price of \$1.00 or \$1.50 per share. Accrued interest and deferred rent were converted to common shares at a conversion price of \$0.76 per share. OxySure issued 1.3 million common shares to its landlord reflecting conversions, and another 220,000 common shares related to lease extensions granted by the landlord.

A long-term note held by the City of Frisco (TX) is payable in varying amounts through December 2015. The note is non-interest bearing but interest has been imputed at 12.34%.

Oxygen Delivery Systems

Major medical emergencies in which patients need high concentrations of oxygen immediately include cardiac arrest, shock, major trauma, severe hemorrhage, sepsis (severe inflammatory response to a bacterial infection), anaphylaxis (a severe whole-body allergic reaction to a food, drug or insect bite) and carbon monoxide poisoning. Most of these can occur outside of a medical facility so a timely response by an adequately equipped layperson is essential to restoring normal breathing.

Oxygen is delivered through a variety of masks but most oxygen storage systems are not suitable in out-of-hospital medical emergencies, as they are too large or must be operated by a relatively knowledgeable user. In hospitals, oxygen is piped in from large storage cylinders and administered by medical staff. Some storage cylinders are some small enough to be easily portable, as are electrical and chemical reaction-based oxygen generators, but the operation of even relatively simple home and travel systems requires some experience.



Chemical reaction-based oxygen generators release oxygen when chemicals (usually sodium chlorate, barium peroxide and potassium perchlorate) are released and combine with each other. This type of oxygen generator is widely used on passenger aircraft and submarines and by firefighters and mine rescue crews. They are compact, have a long shelf life and are well suited to emergency use. However, as the chemical reactions are exothermic, activation of these generators can increase external temperatures significantly, posing a risk of fire. The Model 615 is based on a different oxygen generation technology.

The Model 615

The Model 615, illustrated above, is a catalytic portable oxygen generator that releases 99%-pure oxygen when two inert chemical powders within its single use cartridge are combined. Use of the 615 requires no prescription; the device is available over the counter.

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The 615 is housed in a thermoplastic, lightweight (less than 11 pounds) dispenser which holds a cartridge containing two powders and an accelerant that combine to create oxygen when the cartridge is activated. The 615 dispenses oxygen rate of six liters per minute for approximately 15 to 20 minutes.

The chemicals are combined within an easily removable, single-use cartridge that has a shelf life of two years. As shown in the illustration (below right), operation of the 615 is a simple and straightforward three step process that requires no training or experience. So is the removal and replacement of an empty or expired cartridge. The system requires no maintenance other than replacement of the oxygen cartridge after use or at the end of its shelf life.

The Model 615 apparatus and method of operation are covered by six US and three foreign patents, most of which do not expire for at least another 10 years. Two of the US patents cover a “breathing device utilizing a catalytic oxygen generation method” and another two cover methods (and apparatus) for controlled production of a gas, including its control, containment and delivery.

OxySure does not disclose the chemicals used by its technology. The Model 615 might use a solid form of hydrogen peroxide, e.g., sodium percarbonate or carbamide peroxide, both available in powder form that generates oxygen when combined with water and a catalyst. Both these forms of hydrogen peroxide are easy to transport and safe to handle.



As FDA clearance hinges in large measure on product safety, we infer that potential safety hazards, such as fire risks stemming from the heat generated by chemical reactions, are well contained, a key objective in the design of the 615 and its cartridge.

Risks

In our view, these are the principal risks underlying the stock:

Acceptance Hurdles Penetration achieved so far in the company’s initial target markets may not be sustained, curtailing growth and leaving revenue short of levels essential to satisfactory profitability.

Execution Product launch is still in a relatively early stage. Without broad distribution capability and production scalability, sales may fall short of potential, leading to a failure to achieve critical mass.

Intervening Technology/Competition There does not appear to be any directly competing emergency oxygen therapy systems. But while the company’s catalytic oxygen generation technology and the Model 615 apparatus are covered by US patents, other medical technology companies might develop alternative oxygen generation technology. The chemicals that OxySure uses in the Model 615 are trade secrets but are not patent protected and could potentially be used in competing systems.

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Concentration of Ownership Julian Ross controls 60% of outstanding common shares, a position that underlies a strong commitment to the success of the business. However, he is able to influence business decisions in ways that may not be in the best interest of the shareholders at large.

Customer Concentration While customer mix may vary from quarter to quarter, only three customers accounted for 98% of 2013 sales. The loss of revenue to any one of these customers would have a significant adverse effect on performance.

Potential Dilution The issuance of common shares to raise capital and pay down debt would dilute the ownership interests of current shareholders.

Microcap Concerns Shares of OXYS have risks common to the stocks of other microcap (which we define as market capitalizations of \$250 million or less) companies. These risks often underlie stock price discounts from the valuations of larger-capitalization stocks. Liquidity risk, typically caused by small trading floats and very low trading volume, can lead to large spreads and high volatility in stock price. The company has approximately three million shares in the float. On average, approximately 7,500 shares are traded daily.

Miscellaneous Risks The company's financial results and equity values are subject to other risks and uncertainties known and unknown, including but not limited to competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

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Annual Balance Sheets
(\$ 000)
2011A –2015E

	2011A	2012A	2013A	2Q14A	2014E	2015E
ASSETS						
Current assets						
Cash + equivalents	65	14	658	22	458	923
Accts receivable	3	18	47	411	327	606
Inventory	248	221	288	286	256	283
License fee receivable			500	463		
Prepayments and other		37	107	48	50	50
Total	316	290	1,600	1,230	1,090	1,862
Fixed assets (net)						
Fixed assets (net)	134	46	70	131	152	201
Intangibles	445	418	393	378	362	330
Other	53	124	290	286	300	300
TOTAL ASSETS	948	879	2,352	2,025	1,904	2,693
LIABILITIES AND EQUITY						
Current liabilities						
Accts pay & accruals	245	302	148	436	535	746
Related party payable		207	119	25	120	120
Capital lease obligations - current	328	309	309	308		
Notes payable - current	1,565	32	44	38	40	40
Convertible notes payable		367	230	306	230	230
Deferred revenue	422	499	3		5	5
Total	2,560	1,716	852	1,113	930	1,141
Capital lease obligations	3	3	1	1		
Notes payable	1,162	76	76	44	39	39
Shareholders' equity	(2,777)	(916)	1,423	867	933	1,515
TOTAL LIABILITIES AND EQUITY	948	879	2,352	2,025	1,905	2,693

Source: Company reports & Taglich Brothers estimates

OxySure Systems, Inc.

Annual Income Statements
(\$ 000)
2011A – 2015E

	2011A	2012A	2013A	2014E	2015E
Revenue	185	270	1,800	2,615	4,850
Cost of revenue	103	144	490	1,024	1,698
Gross profit	82	127	1,310	1,592	3,153
Expenses					
R&D		26	356	493	495
Sales & marketing	15	132	353	637	1,213
G&A	1,135	1,107	1,089	1,058	1,074
Total	1,151	1,265	1,798	2,188	2,781
Operating loss	(1,069)	(1,138)	(488)	(596)	371
Other income (expense)	145	210	26	142	200
Interest expense	(608)	(217)	(250)	(440)	(509)
Net income (loss)	(1,532)	(1,145)	(712)	(894)	62
Average shares outstanding (000)	15,930	19,880	23,754	26,345	28,143
Earnings (loss) per share	(0.10)	(0.06)	(0.03)	(0.03)	0.00
Margin Analysis					
Gross margin	44.2%	46.8%	72.8%	60.9%	65.0%
R&D	0.0%	9.5%	19.8%	18.9%	10.2%
Sales & marketing	8.2%	48.8%	19.6%	24.4%	25.0%
G&A	NM	NM	60.5%	40.4%	22.1%

Source: Company reports and Taglich Brothers estimates

	1Q13A	2Q13A	3Q13A	4Q13A	2013A	1Q14A	2Q14A	3Q14E	4Q14E	2014E	1Q15E	2Q15E	3Q15E	4Q15E	2015E
Revenue	240	476	546	538	1,800	356	678	717	864	2,615	891	1,073	1,321	1,564	4,850
Cost of revenue	53	152	111	174	490	206	265	251	303	1,024	312	376	463	547	1,698
Gross profit	187	324	435	364	1,310	151	413	466	562	1,592	579	698	859	1,017	3,153
Expenses															
R&D	37	183	134	2	356	2	276	107	108	493	111	134	132	117	495
Sales & marketing	58	134	78	83	353	88	154	179	216	637	223	268	330	391	1,213
G&A	236	195	266	392	1,089	346	259	215	238	1,058	267	268	264	274	1,074
Total	331	512	479	476	1,798	435	689	502	562	2,188	602	671	727	782	2,781
Operating loss	(144)	(188)	(44)	(112)	(488)	(285)	(276)	(36)	0	(596)	(22)	27	132	235	371
Other income (expense)		19	8	(2)	26	(0)	42	50	50	142	50	50	50	50	200
Interest expense	(25)	(24)	(47)	(154)	(250)	(108)	(86)	(118)	(128)	(440)	(135)	(135)	(128)	(112)	(509)
Net income (loss)	(169)	(193)	(83)	(268)	(712)	(376)	(320)	(104)	(78)	(894)	(107)	(58)	54	173	62
Average shares outstanding	22,666	23,167	24,077	25,108	23,754	25,889	25,997	26,497	26,997	26,345	27,497	28,072	28,215	28,790	28,143
Earnings (loss) per share	(0.01)	(0.01)	(0.00)	(0.01)	(0.03)	(0.01)	(0.01)	(0.00)	(0.00)	(0.03)	(0.00)	(0.00)	0.00	0.01	0.00
Margin Analysis															
Gross margin	78%	68%	80%	68%	73%	42%	61%	65%	65%	61%	65%	65%	65%	65%	65%
R&D	15%	39%	25%	0%	20%	0%	41%	15%	13%	19%	13%	13%	10%	8%	10%
Sales & marketing	24%	28%	14%	15%	20%	25%	23%	25%	25%	24%	25%	25%	25%	25%	25%
G&A	98%	41%	49%	73%	60%	97%	38%	30%	28%	40%	30%	25%	20%	18%	22%

Source: Company reports and Taglich Brothers estimates

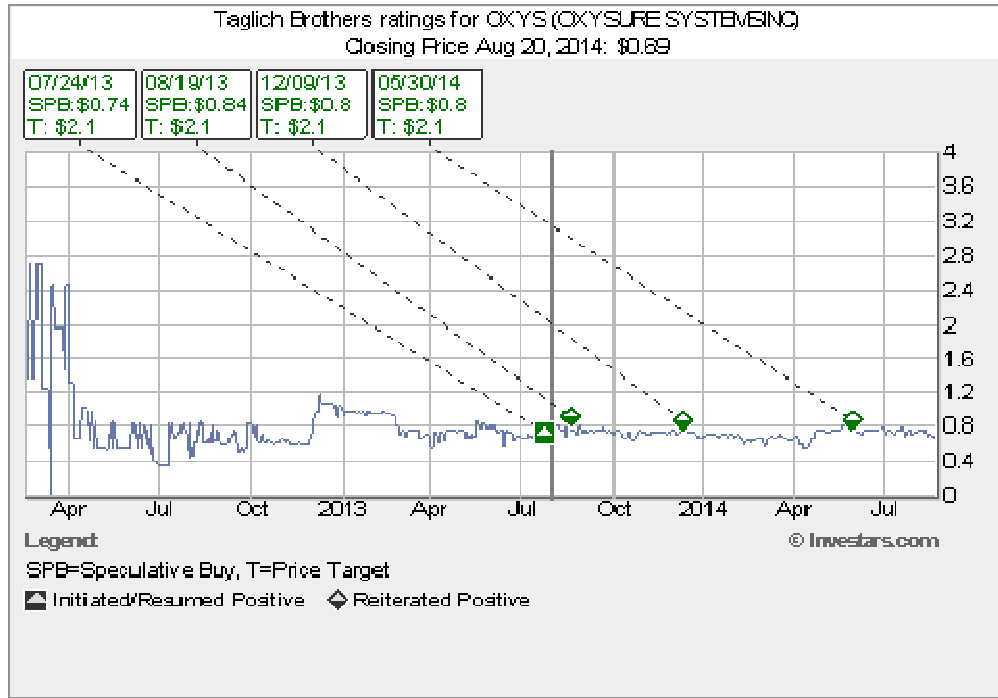
OxySure Systems, Inc.

Annual Cash Flow Statements
(\$ 000)
2011A –2015E

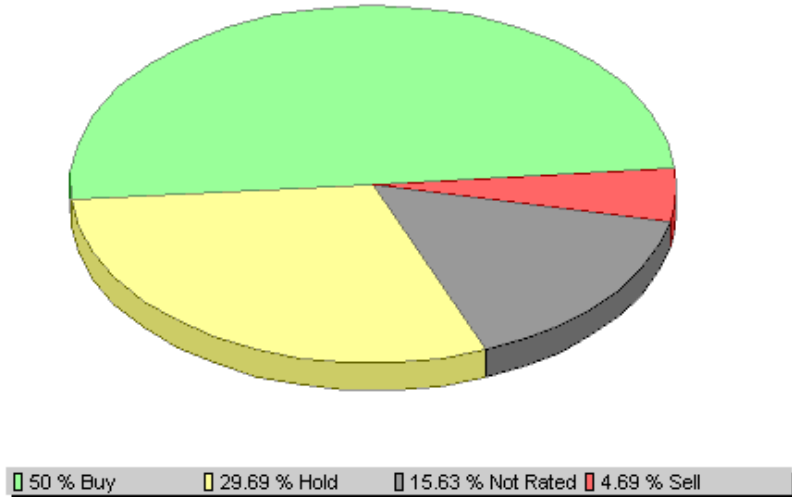
	2011A	2012A	2013A	1H14A	2014E	2015E
Operating activities						
Net Income	(1,532)	(1,145)	(712)	(696)	(878)	62
Depreciation	174	166	53	25	39	31
Amortization of intangibles	30		207			
Prior period adjustment						
Amortization of debt discount/warrant fair value	546	202		121	317	408
Amortization of original issuance/discounts on notes						
Expenses paid by related parties	(18)	21	37	4	4	
Gain on forgiveness of debt		(164)		(43)	(43)	
Stock based compensation - employees	104	134	61	18	48	60
Stock based compensation - others	29	76	127		40	80
Other						
Cash burn/earnings	(667)	(708)	(226)	(570)	(473)	641
Accts rec	(2)	(16)	(29)	(364)	(280)	(279)
Inventory	(20)	27	(66)	2	32	(27)
License fees receivable			(500)	37	500	
Prepayments & other	(41)	108	106	63	63	
Accts pay & accruals	(125)	135	(73)	304	403	211
Deferred revenue	166	78	(73)	(3)	2	
Changes in working capital	(23)	331	(634)	39	720	(95)
Net cash from operations	(689)	(377)	(861)	(532)	247	546
Investing activities						
Capital expenditures	(3)	(33)	(12)	(71)	(106)	(80)
Purchase of intangibles	(1)	(3)	(4)	(0)		
Other	(40)					
Net from investing activities	(45)	(36)	(16)	(71)	(106)	(80)
Financing activities						
Common stock issued for cash		41	347	11	11	
Pref stock issued for cash and warrants			750			
Common stock issued for cash and warrants	23		217			
Cash received from related parties		556	42	10	10	
Payments made to related parties	764	(265)	(269)	(110)	(110)	
Cash received on convertible notes		125	432	248	248	
Payments on convertible notes		(86)		(192)	(192)	
Payments on capital leases	(28)	(19)	(2)	1	(308)	
Net cash from financing	736	362	1,521	(33)	(342)	
Net change in cash	25	(51)	644	(636)	(201)	466
Cash - beginning	40	65	14	658	657	458
Cash - ending	65	14	657	22	458	923

Source: Company reports and Taglich Brothers estimates

Price Chart



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

<u>Rating</u>	<u>#</u>	<u>%</u>
Buy	2	7
Hold	1	17
Sell		
Not Rated		

Important Disclosures

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Analyst Certification

I, Juan Noble, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Dropping Coverage – Research coverage discontinued due to the acquisition of the company, termination of research services, non-payment for such services, diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.