Trickle Research

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

Initiating Research Coverage

Report Date: 05/29/2018

12- 24 month Price Target: **Suspended

Allocation: *1

Closing Stock Price at Initiation (Closing Px: 11/09/17): $2.90 (USD)

Closing Stock Price at Downgrade (Closing Bid Px: 05/29/18): $2.14 (USD)

Assure Holdings Corp.

(Stock Symbol(s) - OTC: ARHH and TSX - IOM.V)

http://www.assureneuromonitoring.com/

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As most are aware by now, Assure Holdings ("ARHH") has announced a handful of disturbing announcements over the past 60 days regarding critical parts of the business. Below is chronological summary of these announcements, followed by some of our own color and conclusions around these events. Note, these are summaries of the announcements, which can be found in their entirety at: www.sedar.com. We are not going to rehash these in detail, as the announcements provide reasonable detail.

On **March 12, 2018** the Company, announced the following;

- the resignation of the Company's auditors
- the delayed filing of audited financial statements
- the resignation of Matthew Willer as a Director
- the launch of a special independent investigation
- the filing of a "Management Cease Trade Order" related to their listing on the Toronto Stock Exchange.

On **March 21, 2018**, provided an update to the original release of March 12, 2018. As part of that update, the Company revealed the following initiatives aimed at mitigating the above:

- Retained Rubin Brown LLP, as a forensic accountant to address some of the material concerns of the Former Auditor.
- Launched a search to find one or several additional directors with corporate governance expertise to join the Audit Committee and the Board following the resignation of Mr. Willer.
- Engaged an internal review of processes to ensure that best practices are in place throughout the Company.

This March 21, release was provided as a general update to the situation, but also as a specific response to the Auditor's Letter regarding its resignation as well as direct discussions the board of directors had with the prior auditors. To summarize the release, most of the issues surrounding the resignation of the auditors focus on a few major issues including poor internal controls, a lack of cooperation in providing information to auditors, and improper use (and/or accounting) of company funds by management. There also appear to be some issues regarding the actions of the Audit Committee or at least the communication between the Audit Committee and the Auditors.

First, recognize that the executive team essentially amounted to Founder and CEO Preston Parsons, and President Mathew Willer, although, they added current CFO Peter Csapo in January 2018. Just to be clear, Mr. Csapo, didn't cause the mess, and is one of those now in charge of cleaning it up. Mr. Willis has resigned all management and board positions with the Company, and Mr. Parsons has resigned as Chairman and CEO, but will remain on the board as well as in a sales capacity with the Company.

On **April 10, 2018** the Company appointed Kent J. Lund to its board of directors. Mr. Lund "has worked in various business, legal and securities compliance roles within the financial services industry. He currently serves as a member of the Colorado Securities Board...". He will serve on the Company's Audit Committee.

On **May 15, 2018** the Company provided what is to date, its most comprehensive evaluation of the issues at hand, as well as an overview of some of the remedies they have created to address the Company's ongoing operations. As part of that evaluation, the Company has determined that Mr. Willer owes the Company $265,423, and if we understand it correctly, Mr. Parson's owes the Company between $1.4 million and $1.5 million. The Company intends to collect each of these amounts. In addition, the Company has appointed John Farlinger as the new Executive Chairman and Interim Chief Executive Officer of the Company. Mr. Farlinger has been a board member of ARHH. According to the announcement, *"Mr. Farlinger's past positions include: CEO of Titan Communications Inc.; President and CEO of San Franciscobased Adzilla Inc.; Chief Operating Officer of Seattle-based Quanta investments, where he oversaw the successful turn around and growth of a regional telecom* *company; and CFO of Lavalife, a pioneer in social meeting services. Mr. Farlinger is a graduate of Queen's University (Bachelor of Commerce)".* The announcement also included the appointment of a new auditing firm Squar Milner *"one of the 50 largest accounting firms in the United States and one of the largest independent accounting and advisory firms in the State of California with an active life sciences and healthcare practice group".*

The release also notes that *"the Company will be working closely with Squar Milner in order to file its annual financial statements, management's discussion and analysis and related officer certifications for the financial year ended December 31, 2017 (the "Annual Filings") as soon as possible".* And lastly, in concludes with a comment that we found telling if not disconcerting, *"the Board is actively focused on determining whether the Company is properly capitalized to meet the financial demands associated with its working capital requirements and plans for growth".*

With that said, here are a few of our observations.

This is profoundly disappointing. Frankly, as most of our readers are aware, this business of evaluating small early stage companies is difficult. There are many nuances that impact the success/failure of these enterprises, many of which the operators have no control over. That is, sometimes these companies can do everything in their power correctly and still fail. Put another way, success for these companies is hard enough without making it harder by not doing things properly. We recognize Assure came from being a private enterprise to a public one just a short time ago, and as such, we think it is reasonable to assume some growing pains along with that transition and that may explain some of this. On the other hand, some of the revelations to this point regarding the issues in question seem a bit more calculated than "growing pains". Again, that part of the situation is maddening.

On the other hand, we think the Company has managed a diligent response to the problems. That includes the appointment of new officers and directors that appear capable on the face, as well as a new established auditor. We think these appointments collectively are likely paramount to the ongoing viability of the Company and represents positive aspects to an otherwise negative set of events.

Looking ahead, we have some specific concerns regarding the accounting, namely, we hope their revenues reflect actual billings, and we hope the receivables are real and collectible. That is one of the reasons why we are concerned with the statement, *"the Board is actively focused on determining whether the Company is properly capitalized to meet the financial demands associated with its working capital requirements and plans for growth".* As we noted in the original coverage, billings and collections are a big risk in the story on the face, so those line items remain a red flag to us. Unfortunately, we will have to wait for audited financials to determine some of those issues. To that point, we are not necessarily suggesting impropriety in that regard, but even in the best case, it seems reasonable to assume that accounting may not have been prior management's strong suite, so it seems reasonable to consternate over any numbers they have provided to this point. Again, we look forward to some clarity via audited filings.

Our sense is to simply terminate the coverage, but at this point, that is a bit like shutting the barn door after the horse has run out. Moreover, we still believe the business model is viable for the reasons we stated in the original coverage, although we recognize the Company may need additional capital (since we can't rely on the financials we have seen to this point) and there is no telling how these issues might impact their ability to attract future business either financially or optically. That said, we are inclined to leave the coverage open, although we are moving our allocation from 4 to *1 to reflect the poor visibility with respect to nearly every important aspect of the story. We are suspending our **price target as well until we have some additional information. That would apply to our model as well. We will update the coverage as more information becomes available.

Projected Operating Model

Suspended Pending Financial Filings

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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.