

**H-SOURCE HOLDINGS LTD.**

**(FORMERLY KNOWN AS 1018763 B.C. LTD.)**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND FROM MAY 27, 2014 (DATE OF  
INCEPTION) THROUGH DECEMBER 31, 2014**

**(EXPRESSED IN US DOLLARS)**

**(UNAUDITED – PREPARED BY MANAGEMENT)**

# H-SOURCE HOLDINGS LTD.

(Formerly Known as 1018763 B.C. Ltd.)

Unaudited Condensed Consolidated Interim Statements of Financial Position

(Expressed in US Dollars)

|   | Notes | September 30, 2015 | December 31, 2014 |
|---|-------|--------------------|-------------------|
|   |       | \$                 | \$                |
| <b>ASSETS</b>                                     |       |                    |                   |
| Current Assets                                    |       |                    |                   |
| Cash and cash equivalents                         | 7     | 1,199,291          | -                 |
| Prepaid expenses                                  |       | 21,154             | 1,821             |
| Accounts receivable                               |       | 18,939             | -                 |
| <b>Total Current Assets</b>                       |       | <b>1,239,384</b>   | <b>1,821</b>      |
|   |       |                    |                   |
| Equipment   | 9     | 4,821              | -                 |
| Patents   | 10    | 57,411             | 57,411            |
| Software development costs                        | 10    | 266,962            | 182,068           |
| <b>TOTAL ASSETS</b>                               |       | <b>1,568,578</b>   | <b>241,300</b>    |
| <b>LIABILITIES</b>                                |       |                    |                   |
| Current Liabilities                               |       |                    |                   |
| Accounts payable and accrued liabilities          | 11    | 157,766            | 283,472           |
| Promissory notes payable                          | 12    | 55,269             | 64,275            |
| Convertible debentures                            | 13    | -                  | 85,000            |
| <b>Total Current Liabilities</b>                  |       | <b>213,035</b>     | <b>432,747</b>    |
|   |       |                    |                   |
| Promissory notes payable - long term portion      |       | -                  | 13,589            |
| <b>SHAREHOLDERS' EQUITY</b>                       |       |                    |                   |
| Common shares                                     | 14    | 3,002,192          | 15,349            |
| Reserves  | 14    | 226,007            | 9,276             |
| Obligation to issue common shares                 | 12    | 22,614             | -                 |
| Deficit   |       | (1,916,082)        | (229,661)         |
| Accumulative other comprehensive income           |       | 20,812             | -                 |
| <b>Total Shareholders' Equity</b>                 |       | <b>1,355,543</b>   | <b>(205,036)</b>  |
|   |       |                    |                   |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> |       | <b>1,568,578</b>   | <b>241,300</b>    |

On behalf of the board:

"John Kupice"

Director

John Kupice

"Murray Walden"

Director

Murray Walden

The accompanying notes are an integral part of these condensed interim financial statements.

**H-SOURCE HOLDINGS LTD.**  
**(Formerly Known as 1018763 B.C. Ltd.)**  
**Unaudited Condensed Consolidated Interim Statements of Comprehensive Loss**  
**(Expressed in US Dollars)**

|   |       | Three Months Ended<br>September 30,<br>2015 | Three Months Ended<br>September 30,<br>2014 | Nine Months Ended<br>September 30,<br>2015 | From May 27, 2014<br>(Date of Inception) to<br>September 30, 2014 |
|---|-------|---|---|--|---|
|   | Notes | \$  | \$  | \$   | \$  |
| <b>Expenses</b>   |       |   |   |  |   |
| Marketing   |       | 51,102                                      | 318   | 56,316                                     | 588   |
| General and administration expenses                     |       | 197,278                                     | 46,674                                      | 736,981                                    | 72,721  |
| Listing cost  | 5     | 533,642                                     | -   | 533,642                                    | -   |
| Share-based payment                                     | 14    | 138,708                                     | -   | 138,708                                    | -   |
|   |       | (920,730)                                   | (46,992)                                    | (1,465,647)                                | (73,309)  |
| <b>Other Income (Expenses)</b>                          |       |   |   |  |   |
| Interest income   |       | 6,411                                       | -   | 6,411                                      | -   |
| Interest and other finance costs, net                   |       | (60,900)                                    | -   | (227,185)                                  | -   |
| Net Loss for the Period                                 |       | (975,219)                                   | (46,992)                                    | (1,686,421)                                | (73,309)  |
| <b>Other Comprehensive Income</b>                       |       |   |   |  |   |
| Foreign exchange on translation of subsidiary           |       | 20,812                                      | -   | 20,812                                     | -   |
| Net Comprehensive Loss for the Period                   |       | (954,407)                                   | (46,992)                                    | (1,665,609)                                | (73,309)  |
| Basic and Diluted Loss Per Share                        |       | (0.03)                                      | (0.00)                                      | (0.08)                                     | (0.01)  |
| Weighted Average Number of Common<br>Shares Outstanding |       | 31,214,441                                  | 13,630,977                                  | 21,999,052                                 | 6,041,569   |

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

# H-SOURCE HOLDINGS LTD.

(Formerly Known as 1018763 B.C. Ltd.)

Unaudited Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

(Expressed in US Dollars)

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND FROM MAY 27, 2014 (DATE OF INCEPTION) THROUGH DECEMBER 31, 2014**

|   | <u>Common Shares</u> |           |         | Obligation to | Accumulative  | Accumulated | Shareholders' |
|---|----------------------|-----------|---------|---------------|---------------|-------------|---------------|
|   | Number of            |           | Reserve | Issue Common  | Other         | Deficit     | Deficiency    |
|   | Shares               | \$        | \$      | Shares        | Comprehensive | \$          | \$            |
|   |                      |           |         | \$            | Income        |             |               |
|   |                      |           |         |               | \$            |             |               |
| Balance – September 30 and December 31, 2014                              | 1                    | -         | -       | -             | -             | (1,250)     | (1,250)       |
| Shares issued for cash  | 5,540,550            | 125,593   | -       | -             | -             | -           | 125,593       |
| Shares issued for acquisition of H-Source, Inc.                           | 20,000,000           | 824,233   | 9,276   | -             | -             | (228,411)   | 605,098       |
| Share reversed on completion of acquisition                               | (1)                  | -         | -       | -             | -             | -           | -             |
| Finder's fee shares issued  | 1,000,000            | 113,340   | -       | -             | -             | -           | 113,340       |
| Shares issued for cash on private placement                               | 17,587,333           | 1,993,348 | -       | -             | -             | -           | 1,993,348     |
| Share issuance cost   | -                    | (263,937) | 78,023  | -             | -             | -           | (185,914)     |
| Shares issued on conversion of convertible debenture and accrued interest | 2,774,149            | 209,615   | -       | -             | -             | -           | 209,615       |
| Stock options granted   | -                    | -         | 138,708 | -             | -             | -           | 138,708       |
| Shares to be issued for promissory note bonus                             | -                    | -         | -       | 22,614        | -             | -           | 22,614        |
| Net loss and comprehensive loss for the period                            | -                    | -         | -       | -             | 20,812        | (1,686,421) | (1,665,609)   |
| Balance – September 30, 2015  | 46,902,032           | 3,002,192 | 226,007 | 22,614        | 20,812        | (1,916,082) | 1,355,543     |

The accompanying notes are an integral part of these condensed interim financial statements.

# H-SOURCE HOLDINGS LTD.

(Formerly Known as 1018763 B.C. Ltd.)

Unaudited Condensed Consolidated Interim Statements of Cash Flows

(Expressed in US Dollars)

|  | Notes | Nine Months Ended<br>September 31, 2015<br>\$ | Seven Months Ended<br>December 31, 2014<br>\$ |
|--|-------|---|---|
| <b>Cash provided by (used in):</b>                     |       |   |   |
| <b>Operating activities</b>                            |       |   |   |
| Net loss for the period                                |       | (1,686,421)                                   | (229,661)                                     |
| Items not involving cash:                              |       |   |   |
| Accretion expense                                      |       | 27,753  | 4,140   |
| Amortization   |       | 276   | -   |
| Foreign exchange                                       |       | 9,217   | -   |
| Listing cost   |       | 166,944                                       | -   |
| Shares issued for services                             |       | 226,161                                       | -   |
| Share-based payments                                   |       | 138,396                                       | -   |
| Changes in non-cash operating working capital:         |       |   |   |
| Accounts receivable                                    |       | (18,940)                                      | -   |
| Prepaid expenses                                       |       | (19,335)                                      | (1,821)                                       |
| Accrued interest payable                               |       | 9,379   | 4,378   |
| Accounts payable & accrued liabilities                 |       | 85,154  | 75,116  |
| Net change in operating activities                     |       | (1,061,416)                                   | (147,848)                                     |
| Cash flows from investing activities:                  |       |   |   |
| Cash from RTO transaction                              |       | 83,289  | -   |
| Equipment  |       | (5,097)                                       | -   |
| Patent   |       | -   | -   |
| Software development                                   |       | (48,809)                                      | -   |
| Cash from H-Source LLC                                 | 6     | -   | 49,848  |
| Net change in financing activities                     |       | 29,383  | 49,848  |
| Cash flows from financing activities:                  |       |   |   |
| Due to related parties                                 |       | (383)   | -   |
| Proceeds from share issuances, net share issuance cost |       | 1,992,552                                     | 13,000  |
| Proceeds from convertible debentures                   |       | 210,234                                       | 85,000  |
| Repayment of promissory notes                          |       | 27,769  | -   |
| Net change in financing activities                     |       | 2,230,172                                     | 98,000  |
| Net change in cash                                     |       | 1,198,139                                     | -   |
| Effect of foreign exchange                             |       | 1,152   | -   |
| Cash, beginning of the period                          |       | -   | -   |
| Cash, September 30, 2015                               |       | 1,199,291                                     | -   |

Supplemental Cash Flow (Note 15)

The accompanying notes are an integral part of these condensed interim financial statements

# **H-SOURCE HOLDINGS LTD.**

(Formerly Known as 1018763 B.C. Ltd.)

## **NOTES TO FINANCIAL STATEMENTS**

**For the nine months ended September 30, 2015 (unaudited) and from May 27, 2014 (date of inception) through DECEMBER 31, 2014**

**(Expressed in US Dollars)**

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### **NOTE 1 - NATURE OF OPERATIONS**

#### **Nature of operations**

H-Source Holdings Ltd., formerly known as “1018763 B.C. Ltd.” (the “Company”), was incorporated on November 11, 2014 under the laws of British Columbia, Canada. Its head office is located at 1980-1075 W. Georgia St., Vancouver BC V6E 3C9, Canada and registered office is located at 1500-1055 W. Georgia St., Vancouver, BC, V6E 4N7, Canada.

On August 31, 2015, The Company completed a plan of merger (the “Transaction”) whereby the Company acquired 100% of the issued and outstanding common shares of H-Source, Inc. (“HSI”), a Washington State corporation, through the merger of the Company’s wholly-owned subsidiary, BC Merger Sub. Inc., with HSI as the surviving and wholly-owned subsidiary of the Company and changed its name to “H-Source Holdings Ltd.”. The Company’s common shares commenced trading on the Canadian Securities Exchange (“Exchange”) on October 1, 2015 under the stock symbol “HSI”.

This Transaction was accounted for as a reverse acquisition as the former shareholders of HSI as well as new investors acquired control of the Company. The Transaction is considered a purchase of the Company’s operations by the shareholders of HSI. The Transaction is recorded in accordance with guidance provided in IFRS 2 Share Based Payments and IFRS 3 Business Combinations. As the Company did not qualify as a business according to the definition in IFRS 3, this Transaction does not constitute a business combination; rather it is treated as an issuance of shares by HSI for the net assets of the Company and the listing status.

HSI was incorporated under the laws of the State of Washington, USA on May 27, 2014 and acquired all of the assets and assumed all of the liabilities of H-Source LLC, effective June 1, 2014. This transaction was accounted for as an acquisition of an entity under common control and as such the transaction was recorded at historical cost. Upon acquisition H-Source LLC was dissolved. HSI has developed a digital platform and network to operate in the healthcare industry and offers a private, hospital-to-hospital marketplace that allows members to buy/sell/transfer supplies and capital equipment with each other. Members can conduct secure transactions within Integrated Delivery Networks (IDNs), Group Purchasing Organizations (GPOs), the complete H-Source network, or customize their own group of hospitals using our built-in filters. This network is designed specifically to reduce health care costs and medical products waste. H-Source LLC started their Alpha testing in September of 2012, proof of concept in December of 2013, and the Company is currently in Beta testing (going to market) stage.

These condensed consolidated interim financial statements of the Company were approved and authorized for issue by the Board of Directors on November 30, 2015.

### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Statement of compliance**

These condensed consolidated interim financial statements have been prepared in compliance with IAS 34 - Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”), on a basis consistent with those followed in the most recent annual financial statements, except as described below. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all of the periods presented, unless otherwise stated.

# **H-SOURCE HOLDINGS LTD.**

(Formerly Known as 1018763 B.C. Ltd.)

## **NOTES TO FINANCIAL STATEMENTS**

**For the nine months ended September 30, 2015 (unaudited) and from May 27, 2014 (date of inception) through DECEMBER 31, 2014**

**(Expressed in US Dollars)**

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### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONT**

#### **Basis of presentation and Going Concern**

These condensed consolidated interim financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable and are presented in United States dollars unless otherwise noted.

These condensed consolidated interim financial statements include the accounts of the Company and HSI. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The subsidiary is fully consolidated from the date on which control is acquired by the Company. Inter-company transactions and balances are eliminated upon consolidation. They are de-consolidated from the date that control by the Company ceases. Inter-company balances and transactions and any unrealized income and expenses arising from inter-company transactions are eliminated in preparing the consolidated financial statement.

The Company is still in the development stage, has not realized any revenues to date and has experienced net losses since inception and as of December 31, 2014 and September 30, 2015 had an accumulated deficit of \$229,661 and \$1,910,082, respectively. For the period from inception to December 31, 2014 and for the nine months ended September 30, 2015, the Company had cash outflows from cash used in operating activities of \$147,848 and \$1,061,416, respectively. The Company expects to continue to incur net losses and have significant cash outflows for the foreseeable future. The Company is subject to a number of risks similar to those of other pre-commercial stage companies, including its dependence on key individuals, uncertainty of product development and generation of revenues, dependence on outside sources of capital, risks associated with research, development, testing, successful protection of intellectual property, competition with larger, better-capitalized companies, and successful completion of the Company's development programs. Ultimately, the attainment of profitable operations is dependent on future events, including obtaining adequate financing to fulfill its development activities and generating a level of revenues adequate to support the Company's cost structure.

The Company requires significant additional cash resources to continue development and marketing of its software platform, support infrastructure, network infrastructure, and sales and marketing efforts. These conditions, among others, raise substantial doubt about the Company's ability to continue as a going concern. The accompanying condensed consolidated interim financial statements have been prepared assuming that the Company will continue as a going concern. This basis of accounting contemplates the recovery of the Company's assets and the satisfaction of liabilities in the normal course of business. A successful transition to attaining profitable operations is dependent upon achieving a level of positive cash flows adequate to support the Company's cost structure.

The Company will continue to consider additional business opportunities to allow them to develop their pipeline and generate revenues.

As of September 30, 2015, the Company had cash and cash equivalents of \$1,199,291. The future viability of the Company is dependent on its ability to generate cash from operating activities, and to raise additional capital to finance its operations. The Company's failure to raise capital as and when needed could have a negative impact on its financial condition and ability to pursue its business strategies.

The condensed consolidated interim financial statements do not include any adjustments due to this uncertainty relating to the recoverability and classification of recorded asset amounts and classification of liabilities.

#### **Common Control Transactions**

The assets and liabilities acquired from entities under common control with the Company are recorded at the carrying value recognized by the transferor. The difference, if any, between the carrying value of the net assets acquired or transferred and the consideration paid by the Company is accounted for as an adjustment to equity.

# H-SOURCE HOLDINGS LTD.

(Formerly Known as 1018763 B.C. Ltd.)

## NOTES TO FINANCIAL STATEMENTS

For the nine months ended September 30, 2015 (unaudited) and from May 27, 2014 (date of inception) through DECEMBER 31, 2014

(Expressed in US Dollars)

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### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONT

#### **Foreign currency translation**

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The functional currency of the Company is the Canadian dollar (“C\$”) and HSI is United States dollar. The reporting currency of the Company is United States dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, “The Effects of Changes in Foreign Exchange Rates”.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in the statement of comprehensive loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

#### **Equipment**

Equipment is recorded at cost less accumulated amortization and impairment losses. Amortization is provided over the estimated useful lives of assets as follows:

|                   |         |
|-------------------|---------|
| Computer hardware | 3 years |
|-------------------|---------|

Cost associated with normal maintenance and repairs are expensed when they occur. Cost of major replacements that substantially extend the economic life of the asset are capitalized.

Upon disposal or abandonment, the carrying amount of an asset is derecognized and any gain or loss arising from the disposal or abandonment of the asset is determined as the sales proceeds less the carrying value of the asset and recognized as an operation expense in the statement of operations and comprehensive income (loss).

#### **Patents**

Patents are capitalized if it is probable that the future economic benefits that are attributable to the patent will flow to the Company and the cost of the patent can be measured reliably. Patents have finite lives and are measured at cost less accumulated amortization and accumulated impairment losses over their useful lives. Patents are assessed for impairment whenever there is an indication that they may be impaired. If any such indication exists, the recoverable amount is estimated and an impairment loss is recognized whenever the carrying amount exceed their recoverable amount. In 2014 the patents were not yet in service, therefore an impairment analysis was performed in accordance with IAS 36, no impairment was recognized as a result of this analysis.

Patents are being amortized using the straight-line method over a 10 year period upon commencement of commercial operations.



# H-SOURCE HOLDINGS LTD.

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## NOTES TO FINANCIAL STATEMENTS

For the nine months ended September 30, 2015 (unaudited) and from May 27, 2014 (date of inception) through DECEMBER 31, 2014

(Expressed in US Dollars)

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### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONT

#### **Deferred software development costs**

Research costs are expensed as incurred. Costs related to the development of software are expensed as incurred unless such costs meet the criteria for deferral and amortization under IFRS. The criteria include identifiable costs attributable to a clearly defined product, the establishment of technical feasibility, identification of a market for the software, the Company's intent to market the software, and the existence of adequate resources to complete the project. Directly attributable costs that are capitalized as part of the software application include employee developer costs. Software development costs are amortized over an estimated useful life of three years, commencing in the year when commercial sales of the products commence. Capitalized software development is evaluated in each reporting period to determine whether it continues to meet the criteria for continued deferral and amortization.

#### **Deferred share issuance costs**

Costs related to the issuance of shares are capitalized and deferred until the shares are issued, at which point they are offset against the proceeds received from the issuance of shares.

#### **Foreign currency translation**

Transactions denominated in foreign currencies are converted to their functional currencies at exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to their functional currencies at the exchange rate prevailing at the reporting date. Non-monetary assets and liabilities are translated at historical exchange rates prevailing at each transaction date. Revenues and expenses are translated at exchange rates prevailing on the date of transactions. All exchange gains and losses are included in determination of earnings. Financial statements of each entity is prepared under their functional currencies are translated into United States dollars for consolidation purposes as follows: assets and liabilities are translated using the exchange rate prevailing at the reporting date; expenses are translated using the average rates of exchange for the period. Gains and losses resulting from translation adjustments are recorded as other comprehensive income (loss) and accumulated in a separate component of shareholders' equity, described as foreign currency translation adjustment.

#### **Loss per share**

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. Diluted loss per share is not presented as there are no dilutive securities outstanding.

#### **Impairment of assets**

The carrying amount of the long-lived assets, specifically intangible assets, is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Long-lived assets under construction are evaluated for impairment annually. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. There were no impairments recognized in the periods ended December 31, 2014 and September 30, 2015.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Any reversal of impairment cannot increase the carrying value of the asset to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

# **H-SOURCE HOLDINGS LTD.**

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## **NOTES TO FINANCIAL STATEMENTS**

**For the nine months ended September 30, 2015 (unaudited) and from May 27, 2014 (date of inception) through DECEMBER 31, 2014**

**(Expressed in US Dollars)**

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### **Derivative liability**

The derivative financial liability consists of conversion options in a variable number of shares and/or conversion into shares with an exercise price that differs from the functional currency of the Company. The fair value of convertible debt that is convertible at prices that differ from the functional currency of the Company and are within the scope of IAS 32 "Financial Instruments: Presentation". The fair values of these debts as at September 30, 2015 and December 31, 2014 was estimated based on a market rate of interest and determined to be not significantly different from the face value. As a result, no value has been assigned to the derivative portion.

### **Share Capital**

Common shares issued for non-cash consideration are recorded at the fair value of the shares at the time, or if the fair value of shares is not measurable, then the fair value of the services provided.

### **Share-based payment transactions**

The stock option plan allows Company directors, officers and consultants to acquire shares of the Company. The fair value of share purchase options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. The fair value is measured at grant date and the share based compensation is expensed based on graded vesting. When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value of the share purchase options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the share purchase options were granted. Forfeiture rates are estimated in advance and are used in the estimate of the share-based expense for the financial statement period. Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or the services.

### **Warrants**

Proceeds from issuances by the Company of units consisting of shares and warrants are allocated based on the residual method, whereby the carrying amount of the warrants is determined based on any difference between gross proceeds and the estimated fair market value of the shares. If the proceeds from the offering are less than or equal to the estimated fair market value of shares issued, a nil carrying amount is assigned to the warrants.

### **Financial instruments**

The Company classifies its financial instruments in the following categories: financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity investments, available-for-sale financial assets and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss. The Company does not have any financial assets measured through profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities

# H-SOURCE HOLDINGS LTD.

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## NOTES TO FINANCIAL STATEMENTS

For the nine months ended September 30, 2015 (unaudited) and from May 27, 2014 (date of inception) through DECEMBER 31, 2014

(Expressed in US Dollars)

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### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONT

greater than 12 months after the end of the reporting period. These are classified as non-current assets. Cash and Cash Equivalents are included in loans and receivables as of December 31, 2014 and September 30, 2015.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets to the extent they are expected to be realized within 12 months after the end of the reporting period. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary financial assets. The Company does not have any available-for-sale financial assets as of December 31, 2014 and September 30, 2015.

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities. The Company has not classified any financial liabilities as FVTPL.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Financial liabilities classified as other financial liabilities include accounts payable and other short-term monetary liabilities.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen.

#### **Provisions**

The Company recognizes provisions for liabilities of uncertain timing or amount including those for legal disputes. If applicable, the provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date, discounted at a pre-tax rate reflecting current market assessments of the time value of money and risks specific to the liability. There were no provisions recognized as of December 31, 2014 or September 30, 2015.

#### **New Standards and Interpretations Not Yet Effective:**

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company is currently assessing the impact of the following standards on the consolidated financial statements and intends to adopt these standards when they become effective.

#### **IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”)**

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programs, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers, and SIC 31 – Revenue – Barter Transactions involving Advertising Services. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is

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## NOTES TO FINANCIAL STATEMENTS

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### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONT

effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. As the Company has not yet started generating revenue this standard is not expected to impact the financial statements.

#### **IFRS 9 – Financial Instruments**

IFRS 9 replaces the current IAS39 - Financial Instruments Recognition and Measurement. The standard intends to reduce the complexity in the classification and measurement of financial instruments. In February 2014, the IASB tentatively determined that the revised effective date for IFRS 9 would be January 1, 2018. The Company is currently evaluating the impact the final standard is expected to have on its financial statements.

### NOTE 3 – CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### **Judgments**

- Continuing feasibility of internally developed software.

#### **Estimates and assumptions**

##### *Fair Value Measurements*

A number of assets and liabilities included in the Company's financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Company's financial and non-financial assets and liabilities utilizes market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorized into different levels based on how observable the inputs used in the valuation technique utilized are (the 'fair value hierarchy'):

- *Level 1:* Quoted prices in active markets for identical items (unadjusted)
- *Level 2:* Observable direct or indirect inputs other than Level 1 inputs
- *Level 3:* Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognized in the period they occur.

The Company measures below market rate debt at fair value at inception and amortized cost over the remaining life of the notes.

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### NOTE 3 – CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS-CONT

#### *Recoverability of long-lived assets*

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

#### *Below Market Rate Debt and Convertible Debt*

The fair value for disclosure purposes has been determined using discounted cash flow pricing models. Significant inputs include the discount rate used to reflect the credit risk and market risk for the Company and its promissory notes (refer to Note 12 and 13). Management's estimate of the discount rate is based on a current market rate of interest for debt instruments obtained by companies of similar risk within this industry.

### NOTE 4 – FINANCIAL INSTRUMENTS

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures.

The principal financial instruments used by the Company, from which financial instrument risk arises are cash and cash equivalents, accounts payable and other accrued liabilities and fixed rate notes payable which is carried at amortized cost.

|  | September 30,<br>2015 | December 31,<br>2014 |
|--|-----------------------|----------------------|
|  | (Unaudited)           |                      |
|  | \$                    | \$                   |
| <b>Financial Assets</b>                |                       |                      |
| Cash and cash equivalents              | 1,199,291             | -                    |
| <b>Total financial assets</b>          | 1,199,291             | -                    |
| <b>Financial Liabilities</b>           |                       |                      |
| Total accounts payable                 | 157,766               | 283,472              |
| Promissory notes payable (fixed rate)  | 55,269                | 64,275               |
| Convertible notes payable (fixed rate) | -                     | 85,000               |
| <b>Total financial liabilities</b>     | 213,035               | 432,747              |

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### NOTE 4 – FINANCIAL INSTRUMENTS-CONT

**Amounts are due as follows:**

|                        |   |        |
|------------------------|---|--------|
| Within three months    | - | 61,185 |
| Three to twelve months | - | 54,265 |
| One to two years       | - | 98,599 |
| Two years or more      | - | -      |

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Financial instruments not measured at fair value include cash and cash equivalents, accounts payable and other accrued liabilities. Due to their short-term nature, the carrying value of cash and cash equivalents and accounts payable and other accrued liabilities approximates their fair value.

For details of the fair value hierarchy, valuation techniques, and significant unobservable inputs related to determining the fair value of notes payable, which are classified in level 3 of the fair value hierarchy, refer to note 12 and 13.

There were no transfers between levels during the periods presented.

The type of risk exposure and the way in which such exposure is managed is provided as follows:

**a) Credit risk**

Credit risk is the risk of loss associated with a counter party's inability to fulfill its payment obligations. The Company's primary exposure to credit risk is on its cash accounts. Cash accounts are held with a major bank in the United States. The Company has deposited the cash with its bank from which management believes the risk of loss is remote.

**b) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet liabilities when they become due. The Company is exposed to liquidity risk as it does not have sufficient cash to settle its current liabilities, refer to Note 2 and the going concern discussion for further information about the Company's plans to manage liquidity risk.

**c) Market risk**

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the Company's value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

*Interest rate risk*

The Company has cash and cash equivalents balances and interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. All debt bears fixed interest rates.

*Foreign currency risk*

While HSI is operating in U.S. dollars, the Company is also conducting business activities in Canada; as such, it is subject to risk in fluctuations in the exchange rate of the Canadian dollar. The Company is exposed to currency risk primarily on settlements of convertible notes payable that were denominated in the Canadian dollar. A 5% change in the USD:CAD exchange rates would change the amount owing by approximately \$1,700.

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### NOTE 4 – FINANCIAL INSTRUMENTS-CONT

#### d) Capital management

The Company considers its cash and share capital as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash. There was no change in the Company's approach to capital management during the period ended December 31, 2014 or the nine months ended September 30, 2015.

### NOTE 5 – REVERSE TAKE-OVER

On March 24, 2015, HSI entered into an Agency Agreement with Bayfront Capital Partners Ltd. to act as exclusive agent for HSI to raise up to C\$2.5 million on a best efforts basis and to assist in the private placement. On March 3, 2015, HSI entered into a non-binding letter of intent with the Company whereby the Company would acquire all of the issued and outstanding common shares in the capital of HSI in connection with a proposed business combination and to list the resulting issuer on the Canadian Stock Exchange. This letter of intent was replaced and superseded by the Merger Agreement and Plan of Reorganization dated July 9, 2015.

On August 31, 2015, the Company completed the Transaction by acquiring all of the issued and outstanding common shares of HSI in consideration for 20,000,000 common shares of the Company. The Company issued 1,000,000 shares as finder's fee in connection with the completion of the Transaction.

In connection with the Transaction, the Company completed a non-brokered private placement financing (the "Concurrent Financing") of an aggregate of 17,587,333 subscription receipts (each, a "Subscription Receipt") at a price of C\$0.15 per Subscription Receipt for aggregate gross proceeds of \$1,993,348 (C\$2,638,100). The Concurrent Financing closed on May 14, 2015. Upon closing of the Transaction, each Subscription Receipt was automatically exercised into one common share of the Company, for no additional consideration.

The Company paid an aggregate of \$180,671 (C\$239,109) in finder's fee and issued an aggregate of 1,319,050 finders' warrants, each of which is exercisable into one share at a price of C\$0.15 per share for a period of two years, expiring August 31, 2017.

As a result of the Transaction, the shareholders of HSI owned approximately 40% of the issued and outstanding common shares of H-Source Holdings Ltd. on a diluted basis. The acquisition of H-Source, Inc. by H-Source Holdings Ltd. constitutes a reverse asset acquisition ("RTO") as H-Source Holdings Ltd. does not meet the definition of a business, as defined by IFRS 3, Business Combinations. For accounting and reporting purposes, HSI is the accounting acquirer and H-Source Holdings Ltd. is the accounting acquiree. Accordingly, the acquisition of the net assets and listing status of H-Source Holdings Ltd. is accounted for as a share-based payment as follows:

|  |    |                    |
|--|----|--------------------|
| <hr/>  |    |                    |
| Net asset acquired:                            |    |                    |
| Cash and cash equivalents                      | \$ | 83,289             |
| Accounts payable and accrued liabilities       |    | (4,682)            |
|  | \$ | <hr/> 78,607 <hr/> |
|  |    |                    |
| Consideration paid:                            |    |                    |
| Fair value of shares of H-Source Holdings Ltd. | \$ | 125,593            |
| Listing cost                                   |    | (46,986)           |
|  | \$ | <hr/> 78,607 <hr/> |

The fair value was determined based on 5,540,550 shares outstanding immediately prior to completing the transaction valued at \$125,593.

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Under RTO accounting, the existing share capital and deficit balances of H-Source Holdings Ltd. are eliminated.

In connection with the Transaction, additional costs of \$486,656 were incurred resulting in a total listing cost of \$533,642.

### NOTE 6 – ACQUISITION OF ENTITY UNDER COMMON CONTROL

HSI acquired all of the assets and assumed all of the liabilities of H-Source LLC, 1, effective June 1, 2014, through issuing 2,640,000 shares of H-Source, Inc. common stock. This transaction was accounted for as an acquisition of an entity under common control and as such the transaction was recorded at historical cost. Upon acquisition H-Source LLC, 1 was dissolved. The assets and liabilities assumed as part of the acquisition are detailed below:

| <u>Assets Acquired and Liabilities Assumed</u> | <u>June 1, 2014</u> |
|--|---------------------|
|  | \$                  |
| Cash   | 49,848              |
| Patents  | 57,411              |
| Software development costs                     | 98,414              |
| Accounts payable and accrued liabilities       | (120,324)           |
| Promissory notes payable                       | (73,724)            |
| <b>Total Net Assets Acquired</b>               | <b>11,625</b>       |

### NOTE 7- SHORT TERM INVESTMENT

As at September 30, 2015, the Company has a short term investment of \$1,038,736 (December 31, 2014 - \$Nil) within a major financial institution and \$405 interest receivable due on September 14, 2016. The short-term investment has an annual yield of prime minus 1.8%.

### NOTE 8- EXPENSES BY NATURE

|                                    | <u>Three months ended</u> | <u>Three months ended</u> | <u>Nine months ended</u>  | <u>From May 27, 2014</u>      |
|------------------------------------|---------------------------|---------------------------|---------------------------|-------------------------------|
|                                    | <u>September 30, 2015</u> | <u>September 30, 2014</u> | <u>September 30, 2015</u> | <u>(Date of Inception) to</u> |
|                                    |                           |                           |                           | <u>September 30, 2014</u>     |
|                                    | \$                        | \$                        | \$                        | \$                            |
| Amortization                       | 276                       | -                         | 276                       | -                             |
| Advertising and promotion          | 51,102                    | 318                       | 56,316                    | 588                           |
| Consulting fees                    | 169,826                   | -                         | 314,051                   | -                             |
| General and administrative         | 31,130                    | 11,597                    | 67,870                    | 14,371                        |
| Foreign exchange                   | (9,678)                   | -                         | (460)                     | -                             |
| Listing cost                       | 533,642                   | -                         | 533,642                   | -                             |
| Professional fees                  | (71,021)                  | 771                       | 165,594                   | 1,071                         |
| Rent                               | 5,621                     | 2,200                     | 10,521                    | 2,401                         |
| Salaries and benefits              | 41,330                    | 30,000                    | 131,568                   | 48,942                        |
| Share-based payments               | 138,708                   | -                         | 138,708                   | -                             |
| Software expense                   | 1,315                     | 155                       | 8,070                     | 206                           |
| Transfer agent and regulatory fees | 14,327                    | -                         | 14,327                    | -                             |
| Travel                             | 14,152                    | 1,951                     | 25,164                    | 5,730                         |
|                                    | <u>920,730</u>            | <u>46,992</u>             | <u>1,465,647</u>          | <u>73,309</u>                 |



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### NOTE 9 – EQUIPMENT

| <u>Cost</u>                     | <u>Computer Hardware</u> |
|---------------------------------|--------------------------|
|                                 | \$                       |
| At December 31, 2014            | -                        |
| Change during the period        | 5,098                    |
| At September 30, 2015           | 5,098                    |
| <u>Accumulated depreciation</u> |                          |
|                                 | \$                       |
| At December 31, 2014            | -                        |
| Change during the period        | (277)                    |
| At September 30, 2015           | (277)                    |
| <u>Net book value</u>           |                          |
|                                 | \$                       |
| At December 31, 2014            | -                        |
| At September 30, 2015           | 4,821                    |

### NOTE 10 – INTANGIBLE ASSETS

| <u>Cost</u>                                 | <u>Patents</u> | <u>Software development costs</u> |
|---|----------------|-----------------------------------|
|   | \$             | \$                                |
| At May 27, 2014                             | -              | -                                 |
| Additions - internally developed            | -              | 83,654                            |
| Acquired through common control transaction | 57,411         | 98,414                            |
| At December 31, 2014                        | 57,411         | 182,068                           |
| Additions - internally developed            | -              | 84,894                            |
| At September 30, 2015                       | 57,411         | 266,962                           |

As the patents and software development costs are still in development as of December 31, 2014 and September 30, 2015, there was no amortization recorded. There were no contractual commitments for development costs as of December 31, 2014 or September 30, 2015.

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### NOTE 11 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

|   | September 30,<br>2015 | December 31,<br>2014 |
|---|-----------------------|----------------------|
|   | (Unaudited)           |                      |
|   | \$                    | \$                   |
| Accounts payable                                      | 150,562               | 243,387              |
| Accrued payroll taxes                                 | 7,204                 | 28,549               |
| Accrued interest payable                              | -                     | 11,536               |
| <b>Total accounts payable and accrued liabilities</b> | <b>157,766</b>        | <b>283,472</b>       |

### NOTE 12 – PROMISSORY NOTES PAYABLE

|  | September 30,<br>2015 | December 31,<br>2014 |
|--|-----------------------|----------------------|
|  | (Unaudited)           | \$                   |
|  | \$                    |                      |
| Beginning balance                                    | 77,864                | -                    |
| Promissory notes entered into or assumed             | 55,269                | 73,724               |
| Repayment of promissory notes                        | (87,140)              |                      |
| Accretion expense                                    | 9,276                 | 4,140                |
| <b>Total promissory notes payable</b>                | <b>55,269</b>         | <b>77,864</b>        |
| <b>Less short term portion</b>                       | <b>-</b>              | <b>(64,275)</b>      |
| <b>Long term portion of promissory notes payable</b> | <b>-</b>              | <b>13,589</b>        |

HSI issued various unsecured promissory notes with face values totaling \$83,000 (December 31, 2014 - \$83,000). The promissory notes have terms of between 3 months and 3 years and bear interest rates between 0.25% and 8% per annum. Certain of the notes included a “kicker” provision for an additional \$6,000 which has been recorded as interest. HSI determined the fair value of certain below-market rate notes with a face value of \$63,000 to be \$53,724 based on an estimated market interest rate of 15% and as a result a total of \$9,276 has been recorded as a reserve in equity under the residual method.

As of December 31, 2014 the carrying value of the promissory notes payable approximated fair value due to the short term nature of the notes. Significant inputs include the market interest rate which varies from the stated rate and is a level 3 input.

During the period ended September 30, 2015, the HSI entered into agreements to settle these notes payable, by the issuance of 453,648 common shares with a value of \$58,264 in settlement of promissory notes.

On September 3, 2015, HSI entered into two promissory notes for a total of \$55,629 (C\$75,000). The promissory note is unsecured, non-interest bearing and payable on demand at any time after October 28, 2015. In consideration, a total of 200,000 bonus shares valued at \$22,614 shall be issued. The promissory notes were repaid subsequent to September 30, 2015. The 200,000 bonus shares remain outstanding as at September 30, 2015 and is recognized as obligation to issue shares.

# **H-SOURCE HOLDINGS LTD.**

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## **NOTES TO FINANCIAL STATEMENTS**

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**(Expressed in US Dollars)**

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### **NOTE 13 – CONVERTIBLE NOTES PAYABLE**

During the period ended December 31, 2014, HSI issued \$85,000 of unsecured convertible promissory notes, which are convertible as follows: into one share of the HSI's common stock and one warrant for every two dollars of convertible promissory notes, exercisable for 3 years at \$1.50 share, from date of conversion; or in the even the note is not repaid within the 2 year term the note is convertible into 1 share of restricted common stock and 1 warrant for every two dollars of convertible promissory note, exercisable for 3 years at \$1.50 per share, from date of conversion.

The convertible promissory notes have a term of 2 years and bear an interest rate of 10% per annum, paid on a quarterly basis, beginning October 1, 2014.

HSI classified these notes into debt and derivative components as a result of the ability to convert at a variable number of shares. As HSI was unable to reliably fair value the derivative liability, the fair value of the debt component was calculated as the present value of the required interest and principal payments that would have been applicable to non-convertible debt using a market rate of 15% per annum. The value of the derivative liability was determined to be insignificant and the debt has been recorded at its face value at initial recognition and at June 30, 2015 and December 31, 2014

During the period ended September 30, 2015, HSI issued \$5,000 and \$210,317 (C\$265,000) of unsecured convertible promissory notes. The \$5,000 note bears interest at 8% per annum, is due 30 days from a capital raise of \$1,500,000 and is convertible into one share of the Company at HSI's common stock at \$0.67 per share or the same term as the planned Offering. (See Note 14) The C\$265,000 convertible promissory notes have a term of 8 months, bear an interest rate of 10% per annum, and are convertible at C\$0.10 per share. These notes are classified as derivative liabilities as the exercise price differs from the functional currency of HSI. Refer to Note 2 and the discussion of derivative liabilities. Issuance costs of \$26,565 were paid relating to the C\$ notes and are being accreted over the life of the notes. For the nine months period ended September 30, 2015, the HSI recognized \$9,276 in accretion of the issuance costs.

The Company classified these notes into debt and derivative components. As the Company was unable to reliably fair value the derivative liability, the fair value of the debt component was calculated as the present value of the required interest and principal payments that would have been applicable to non-convertible debt using a market rate of 15% per annum. The value of the derivative liability was determined to be insignificant and the debt has been recorded at its amortized cost.

On July 31, 2015, the convertible promissory notes with a face value of \$5,000 were converted into HSI's common shares which resulted in the issuance of 40,490 common shares of the Company.

On August 31, 2015, the convertible promissory notes with a face value of \$265,000 and accrued interest of \$12,415 were converted into the Company's common shares which resulted in the issuance of 2,774,149 common shares of the Company.

### **NOTE 14 – SHARE CAPITAL**

#### **A. Authorized common shares**

The authorized share capital of the Company is unlimited number of common shares without par value. All issued shares are fully paid.

Issued and Outstanding: As at September 30, 2015, 46,902,032 common shares were outstanding.

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### NOTE 14 – SHARE CAPITAL-CONT

#### **B. Issued shares**

a) On April 21, 2015 and April 24, 2015, the Company closed \$26,083 (C\$31,860) and \$78,274 (C\$95,640), respectively in private placements by issuing 4,250,000 common shares at a price of C\$0.03 per share.

b) On July 9, 2015, the Company issued 280,000 common shares at a price of C\$0.03 per share for total proceeds of \$6,597 (C\$8,400).

c) On August 31, 2015, the Company completed the Transaction by acquiring all of the issued and outstanding common shares of HSI in consideration for 20,000,000 common shares of the Company at C\$0.15 per share. The Company paid 1,000,000 shares as finder's fee in connection with the completion of the Transaction at a deemed price of C\$0.15 per share (Note 5).

d) On August 31, 2015, the Company completed its private placement of an aggregate of 17,587,333 common shares at a price of C\$0.15 per share for aggregate gross proceeds of \$1,993,348 (C\$2,638,100). The Company paid an aggregate of \$180,671 (C\$239,109) in finder's fee and issued an aggregate of 1,319,050 finders' warrants, each of which is exercisable into one share at a price of C\$0.15 per share for a period of two years, expiring August 31, 2017. The warrants were valued at fair value of \$78,023 (C\$103,260) and was estimated using the Black-Scholes pricing model with the following assumptions at the issue date: risk free interest rate of 0.58%; dividend yield of 0%; expected volatility of 100%; and expected life of 2 years.

e) On August 31, 2015, convertible promissory notes with a face value of \$260,317 (C\$265,000) and accrued interest of \$12,415 were converted into 2,774,149 common shares of the Company.

#### **C. Share purchase option compensation plan**

The Company has adopted a Stock Option Plan (the "Plan") pursuant to which options may be granted to directors, officers, employees and consultants of the Company. Under the terms of the Plan, the Company can issue a maximum of 10% of the issued and outstanding common shares at the time of the grant, and the exercise price of each option is equal to or above the market price of the common shares on the grant date. Options granted under the Plan including vesting and the term, are determined by, and at the discretion of, the Board of Directors.

The continuity of stock options for the period ended September 30, 2015 is as follows:

|  | September 30, 2015   |  | December 31, 2014    |                                       |
|--|----------------------|--|----------------------|---------------------------------------|
|  | Number of<br>Options | Weighted<br>Average<br>Exercise Price<br>C\$ | Number of<br>Options | Weighted<br>Average<br>Exercise Price |
| Options outstanding, beginning of the period | -                    | -  | -                    | \$-                                   |
| Granted                                      | 2,149,020            | -  | -                    | \$-                                   |
| Options outstanding, end of the period       | 2,149,020            | \$0.15                                       | -                    | \$-                                   |
| Options exercisable, end of the period       | 1,680,000            | \$0.15                                       | -                    | \$-                                   |

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### NOTE 14 – SHARE CAPITAL-CONT

#### C. Share purchase option compensation plan – Cont

The options outstanding and exercisable at September 30, 2015 are as follows:

| Number Outstanding | Weighted Average Exercise Price<br>C\$ | Expiry Date     |
|--------------------|--|-----------------|
| 2,149,020          | 0.15                                   | August 31, 2020 |

- (i) On August 31, 2015, the Company granted 1,380,000 options to Directors, Officers, and a consultant of the Company. The options are exercisable at C\$0.15, vested immediately and expire on August 31, 2020. The Company recorded a share based payment amount of \$132,018 (C\$174,719). The Company used the Black-Scholes option pricing model to estimate the fair value of the options using the following assumptions: risk free interest rate of 0.58%; dividend yield of 0%; expected volatility of 100%; and expected option life of 5 years.
- (ii) On August 31, 2015, the Company granted 469,020 options to a consultant of the Company. The options are exercisable at C\$0.15 and expire on August 31, 2020. The options vest as to ¼ on November 30, 2015 and ¼ every quarter thereafter. The Company valued the options at C\$50,482 using the Black-Scholes option pricing model to estimate the fair value of the options using the following assumptions: risk free interest rate of 0.58%; dividend yield of 0%; expected volatility of 100%; and expected option life of 5 years. During the period the Company recorded a share based payment amount of \$6,691 (C\$8,855) and the remainder will be expensed over the vesting term.

Option pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates and therefore, in management's opinion, existing models do not necessarily provide reliable measure of the fair value of the Company's stock options.

#### D. Share Purchase Warrants

The following table summarizes the continuity of share purchase warrants:

|   | September 30, 2015 |  | December 31, 2014  |                                 |
|---|--------------------|--|--------------------|---------------------------------|
|   | Number of Warrants | Weighted Average Exercise Price<br>C\$ | Number of Warrants | Weighted Average Exercise Price |
| Warrants outstanding, beginning of the period | -                  | -                                      | -                  | \$ -                            |
| Issued  | 1,319,050          | \$0.15                                 | -                  | \$ -                            |
| Warrants outstanding, end of the period       | 1,319,050          | \$0.15                                 | -                  | \$ -                            |

| Number of Warrants outstanding | Exercise Price<br>C\$ | Weighted Average Remaining Life | Expiration Date |
|--------------------------------|-----------------------|---------------------------------|-----------------|
| 1,319,050                      | \$0.15                | 1.92                            | August 31, 2017 |

# H-SOURCE HOLDINGS LTD.

(Formerly Known as 1018763 B.C. Ltd.)

## NOTES TO FINANCIAL STATEMENTS

For the nine months ended September 30, 2015 (unaudited) and from May 27, 2014 (date of inception) through DECEMBER 31, 2014

(Expressed in US Dollars)

### NOTE 14 – SHARE CAPITAL-CONT

#### D. Share Purchase Warrants - CONT

The fair value of warrants issued during the year was estimated using the Black-Scholes pricing model with the following assumptions at the issue date: risk free interest rate of 0.58%; dividend yield of 0%; expected volatility of 100%; and expected life of 2 years. The warrants are valued at \$78,023 (C\$103,260).

#### E. Escrow shares

As at September 30, 2015, the Company had 9,852,166 common shares held in escrow (December 31, 2014 – nil).

### NOTE 15 – SUPPLEMENTAL CASH FLOW

#### INVESTING AND FINANCING NON-CASH TRANSACTIONS

|  | September 30,<br>2015 | December 31,<br>2014 |
|--|-----------------------|----------------------|
| Shares issued by HSI for software development costs and settlement of accounts payable | 239,823               | -                    |
| Shares issued by HSI in settlement of promissory notes                                 | 156,850               | -                    |
| Shares issued from the conversion of convertible debenture and accrued interest        | 209,615               | -                    |
| Software development costs incurred but not paid                                       | -                     | 77,766               |
| Warrants issued as share issuance cost   | 78,023                | -                    |
| Non-cash listing costs   | 160,326               | -                    |

### NOTE 16 – RELATED PARTY TRANSACTIONS

Related party transactions are as follows:

- As at September 30, 2015, \$nil (December 31, 2014 - \$639) is owed to the Chief Executive Officer of the Company which was included in accounts payable.

Summary of key management (officers and directors) personnel compensation:

|                             | September 30,<br>2015<br>(Unaudited) | December 31,<br>2014 |
|-----------------------------|--------------------------------------|----------------------|
| Key management compensation | \$<br>264,700                        | \$<br>117,625        |

b) Included in the above amounts are \$36,085 (December 31, 2014 - \$77,766), which has been capitalized to deferred software development costs and \$75,000 each to the President and CEO. Also included in the above is non-cash compensation in form of stock options to the following:

- John Kupice, CEO of \$41,558 (2014 – nil);
- Murray Walden, President of \$41,588 (2014 – nil);
- Ronald Overstreet, Director of \$9,974 (2014 – nil);
- Savio Chiu, Director of \$8,312 (2014 – nil); and
- Denise Lok, CFO of \$13,299 (2014 – nil).

## **H-SOURCE HOLDINGS LTD.**

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### **NOTES TO FINANCIAL STATEMENTS**

**For the nine months ended September 30, 2015 (unaudited) and from May 27, 2014 (date of inception) through  
DECEMBER 31, 2014**

**(Expressed in US Dollars)**

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#### **NOTE 16 – RELATED PARTY TRANSACTIONS-CONT**

During the nine month period ended September 30, 2015 the Company issued 2,204,103 shares with a fair value of \$549,310 (2014 - \$117,625) in settlement of fees and wages owing to officers and directors for services provided.