



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the Period ended September 30, 2018

General

This Management's Discussion and Analysis ("MD&A") has been prepared by management as of November 28, 2018, and it presents an analysis of the consolidated financial position of H-Source Holdings Ltd. (the "Company") for the period ended September 30, 2018. The following information should be read in conjunction with the audited financial statements of the Corporation for the year ended December 31, 2017, including the notes contained therein. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

Unless otherwise indicated, references to \$ or "dollars" are to US dollars and references to "C\$" are to Canadian dollars.

Forward-looking Statements

This MD&A contains forward-looking statements. These statements relate to future events or future performance and reflect our expectations and assumptions regarding our growth, results of operations, performance, and business prospects and opportunities. Such forward-looking statements reflect our current beliefs and are based on information currently available to us. In some cases, forward-looking statements can be identified by terminology such as "may", "would", "could", "will", "should", "expect", "plan", "intend", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other similar expressions concerning matters that are not historical facts. The forward-looking statements in this MD&A include, among others, statements regarding our future operating results, economic performance, and product development efforts, and statements in respect of:

- our expected future losses and accumulated deficit levels;
- our projected financial position and estimated cash burn rate;
- our requirement for, and our ability to obtain, future funding on favorable terms or at all;
- our potential sources of funding;
- our expectations regarding our capacity to develop our technology;
- our assessment of the benefits of our technology to our customers;
- our expectations regarding the progress, and the successful and timely completion, of the various stages of the regulatory clearance process;
- our plans to market our technology;
- our expectations regarding the acceptance of our technology by the market;
- our expectations with respect to future corporate alliances and licensing transactions with third parties, and the receipt and timing of any payments to be made by us to us in respect of such arrangements; and
- our strategy with respect to the protection of our intellectual property.

A number of factors could cause actual events, performance or results, including those in respect of the foregoing items, to differ materially from the events, performance, and results discussed in the forward-looking statements. Factors that

could cause actual events, performance or results to differ materially from those set forth in the forward-looking statements include, but are not limited to:

- the effect of continuing operating losses on our ability to obtain, on satisfactory terms, or at all, the capital required to maintain our business as a going concern;
- the ability to obtain sufficient and suitable financing to support operations, development and commercialization of technology;
- the risks associated with the development of our technology;
- the risks associated with the increase in operating costs from additional development costs and increased staff;
- the regulatory approval process;
- our ability to successfully compete in our targeted markets;
- our ability to adequately protect proprietary information and technology from competitors;
- our ability to attract and retain key personnel and key collaborators;
- the potential for product liability claims; and
- the substantial risks involved in early-stage technology development companies.

Although the forward-looking statements contained in this MD&A are based on what we consider to be reasonable assumptions based on information currently available to us, there can be no assurance that actual events, performance or results will be consistent with these forward-looking statements, and our assumptions may prove to be incorrect. These forward-looking statements are made as of the date of this MD&A.

Forward-looking statements made in this MD&A are made as of the date of the original document and have not been updated by us except as expressly provided for in this MD&A.

Business Overview

H-Source is a technology company operating within the healthcare industry. H-Source has developed a proprietary hospital-to-hospital transaction platform that provides a private, secure and trusted marketplace for member hospitals to buy/sell/transfer excess inventory supplies and capital equipment with each other.

On March 3, 2017, the Company completed its brokered private placement of common shares (the “Offered Shares”), at a price of C\$0.18 per Offered Share (the “Issue Price”) for gross proceeds to the Company of \$2,410,400 (the “Offering”). A total of 17,890,000 Offered Shares were sold pursuant to the Offering. The Offering was conducted by Mackie Research Capital Corporation (the “Agent”). The Company paid the Agent a cash commission of \$247,908 and issued 1,304,141 Agent compensation options (the “Compensation Options”). Each Compensation Option is exercisable into one common share of the Company at the Issue Price for a period of 18 months from the closing of the Offering. The fair value of the Compensation Options is \$150,107.

On August 9, 2017, H-Source, Inc. incorporated a wholly owned subsidiary, H-Source Distribution-US, Inc. (“H-Source - Distribution”), to enable the Company to purchase inventory and sell assets from hospital liquidations. All of the assets are sold thru the platform to member facilities.

On January 4, 2018, the Company completed a brokered private placement of 17,250,000 common shares at a price of C\$0.10 per share for gross proceeds of \$1,286,850 (C\$1,725,000). The Company paid the agent a cash commission of \$95,814 and issued 1,284,376 agent compensation options. Each compensation option is exercisable into one common share of the Company at C\$0.10 for a period of 18 months from the closing of the offering. The fair value of the options was determined to be \$50,812.

On July 12, 2018, the Company completed a brokered private placement of 7,666,667 common shares at a price of C\$0.15 per share for gross proceeds of \$873,425 (C\$1,150,000). The Company paid the agent a cash commission of \$65,543 (C\$86,250) and issued 575,000 agent compensation options. Each compensation option is exercisable into one common share of the

Company at C\$0.15 for a period of 18 months from the closing of the offering. The fair value of the options was determined to be \$38,932.

As of September 30, 2018, the transaction volume for the last quarter was consistent with the prior quarter. This is our first continuous year of revenue and we identified seasonality due to most of our hospitals having a 9/30 fiscal year end. Until the new budget dollars went into effect in our Q4 purchases were on hold. This was bad for Q3 but good for Q4 with these transactions closing in early Q4. We expect a strong Q4. We are adding inventory to our platform focusing on items from sales history that turn more quickly – with this strategic initiative in place the inventory has grown from \$400,000 at the start of the year to over \$2,200,000 currently. The pipeline has consistently grown for the past 12 months. H-Source is well positioned for continued growth in the remainder of 2018 and 2019 with the following initiatives:

1. Sellable inventory is increasing
2. Data visualization reporting has been added
3. Active users are increasing monthly for the past 9 months
4. We are beginning to sell Original Equipment Manufacturer (“OEM”) – new and refurbished equipment thru the Platform
5. We are sourcing capital equipment for members on request
6. We offer enhanced services where H-Source provides the labor for managing and listing products for the medical facility and charges a higher percentage of sales revenue for the additional services
7. We expect to license our software to select medical facility groups in Q4 of 2018
8. Will be kicking off project with large regional GPO consulting group in Q4.

Currently, H-Source pursues its growth strategy by:

1. Aggregating hospitals and hospital systems on the H-Source platform, driving network effects with each new facility, listing, or purchase
2. Enhancing the H-Source software platform through new functionality for pharmacy, Food and Drug Administration (“FDA”) recalls, Single Warehouse, member communication, reporting, and system optimization for scalability to thousands of concurrent users
3. Developing strategic partnerships with targeted healthcare service providers, creating a “win – win” situation for both H-Source and the service providers utilizing the H-Source platform to realize cost savings and recover value from surplus inventory
4. Single Warehouse/Self Distribution implementations of the H-Source platform
5. Maintaining Joint Marketing relationships with multiple state hospital associations and metropolitan hospital councils and associations
6. Hiring additional sales professionals and Independent Sales Representatives (“ISR”) in targeted markets
7. Implementing an account management program within Sales
8. Enhancing the H-Source Platform inter-connectivity
9. Having joint projects thru various partnerships with 3rd-party and capital equipment resellers, including hospital liquidations
10. Distributing products from third parties or Original Equipment Manufacturers (“OEM”) thru the platform.
11. Having H-Source Distribution handle liquidation products, enhanced services, and product sourcing thru the H-Source Software Platform
12. Providing data visualization embedded in our software platform
13. Offering self-service reporting available at extra cost

Overall Performance

The statement of financial position as of September 30, 2018 indicates a cash balance of \$191,433 (December 31, 2017 – \$56,426) and total current assets of \$587,601 (December 31, 2017 – \$371,983).

Current liabilities at September 30, 2018 total \$429,681 (December 31, 2017 - \$242,475). Shareholders' equity of \$505,950 (December 31, 2017 – \$605,515) is comprised of share capital of \$9,731,949 (December 31, 2017 - \$7,924,721), reserves of \$764,405 (December 31, 2017 - \$570,305), accumulative other comprehensive income \$34,925 (December 31, 2017 – accumulative other comprehensive loss \$23,527), and accumulated deficit of \$10,077,241 (December 31, 2017 - \$7,865,984).

As at September 30, 2018 the working capital is \$157,920 (December 31, 2017 – \$129,508).

Results of Operations and Additional Disclosure for the Company without Significant Revenue

The Company is currently starting to transition from pre-operation to operational stage and recorded \$959,583 as revenue this period and net commission sales of \$79,515. The expenses of the Company for the period ended September 30, 2018 consisted mainly of amortization of \$146,935, consulting fees of \$201,016, general and administration of \$695,211, and salaries and benefits of \$1,184,373.

Amortization for the period ended September 30, 2018 amounted to \$146,935, which is related to amortization of patents and software development costs.

Consulting fees for the period ended September 30, 2018 amounted to \$201,016 consist of fees paid to various consultants and advisors of the Company for financial management, business development, and marketing services.

General and administration for the period ended September 30, 2018 amounted to \$695,211, which mainly included general office, rent, software, transfer agent, and travel expenses.

Salaries and benefits incurred for the period ended September 30, 2018 amounted to \$1,184,373, which included employees and management's salaries and healthcare benefits.

Share-based payment for the period ended September 30, 2018 amounted to \$162,053, which is related to stock options and restricted stock units ("RSU") granted to directors, officers, employees and a consultant of the Company.

COMPARISON OF RESULTS OF OPERATIONS

Current Quarter

During the quarter ended September 30, 2018, the Company reported revenue of \$277,322 (September 30, 2017 – \$128,408), a net commission sales of (\$3,794) (June 30, 2017 – nil), a net loss of \$880,103 (September 30, 2017 - \$443,355), and a net comprehensive loss of \$876,446 (September 30, 2017 - \$374,707). The net commission sales of (\$3,794) was due to an accounting adjustment during the quarter. The increased losses during the period compared to the previous quarter was attributable to increased salaries and benefits from additional employees, increased professional fees from the closing of the private placements, amortization on the software development cost and patents, and the share-based payment recognized from the grant of stock options and RSUs.

During the quarter ended September 30, 2018, the Company recorded operating expenses of \$984,348 (September 30, 2017 – 545,986). Amortization of \$49,076 (September 30, 2017 - \$nil) was due to amortization of software development cost and patent that started on December 31, 2017. General and administrative of \$219,403 (September 30, 2017 –

Revenue	277,322	471,112	294,458	179,096	128,408	7,439	Nil	Nil
Net Loss	880,103	705,001	626,153	1,154,697	443,355	565,517	504,105	467,107
Basic and diluted loss per share	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Total assets	935,631	1,203,332	1,481,674	847,990	1,854,940	2,262,995	2,763,165	1,116,583
Working Capital	157,920	73,619	740,259	129,508	894,282	1,309,208	1,938,133	316,307

Three Months Ended September 30, 2018

During the three months ended September 30, 2018, the Company reported revenue of \$277,322 (September 30, 2017 – \$128,408), and a negative net commission sales of \$3,794 (September 30, 2017 - \$nil) due to management did an accounting adjustment in current quarter. A net loss of \$880,103 (September 30, 2017 – \$443,355) was recorded. The net loss overall increased during the periods because of the increase in operating expenses, such as amortization, general and administration, salaries and benefits, and share-based payment.

Sales

For the period ended September 30, 2018, the Company's revenue by \$148,914 compared to the period ended September 30, 2017.

Amortization

For the period ended September 30, 2018, \$49,076 (September 30, 2017 - \$nil) in amortization was recorded. The increase was due to the Company started amortizing software development cost and patent after year end December 31, 2017.

General and Administration

For the period ended September 30, 2018, \$219,403 (September 30, 2017 - \$175,978) in general and administration was attributable to increase in rent, software expense, and transfer agent and regulatory expense.

Salaries and Benefits

For the period ended September 30, 2018, \$374,714 (September 30, 2017 - \$255,274) in salaries and benefits was related to the increased in the number of employees.

Share-based Payment

For the period ended September 30, 2018, \$162,053 (September 30, 2017 - \$nil) in share-based payment was related to 1,770,000 stock options and 1,050,000 restricted stock units granted to directors, officers, employees and a consultant during the period.

Net Loss

Overall, general and administration, salaries and benefits, amortization, and share-based payment caused variances in net losses from quarter to quarter. The variances are mainly caused by the increased in the sales and the commission revenue, increased in the number of employees, and the Company granted stock options and restricted stock units to its directors, officers, employees and a consultant.

Liquidity and Capital Resources

For the period ended September 30, 2018, the Company generated \$1,978,825 from financing activities.

At September 30, 2018, the Company had a working capital of \$157,920 having cash of \$191,433, and accounts payable and accrued liabilities of \$294,117.

A summary of the Company's contractual obligations at September 30, 2018 is detailed in the table below.

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years
Accounts Payable, Accrued and other Liabilities	\$294,117	\$294,117	N/A	N/A	N/A
Due to related parties	47,925	47,925	N/A	N/A	N/A
Loan Payable	87,639	87,639	N/A	N/A	N/A
Total	\$429,681	\$429,681	N/A	N/A	N/A

License Agreement

There are no license agreements

Off-Balance Sheet Arrangements

As of the date of this management discussion and analysis, the Company does not have any off balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company.

Transactions with Related Parties

Related party transactions are as follows:

Key management (officers and directors) personnel compensation including share-based payments for the period ended September 30, 2018 was \$379,769 (2017 - \$225,000).

As of September 30, 2018, \$31,950 (2017 - \$nil) and \$15,975 (2017 - \$nil) were accrued as bonuses for the Company's CEO and president respectively.

Recent Accounting Pronouncements

The following is a summary of recent accounting pronouncements the Company will be required to adopt in future years. The Company continues to evaluate the impact of these standards on its 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.

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 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 16 – Leases (“IFRS 16”)

IFRS 16 replaces IAS 17 “Leases” and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is not substantially changed. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted for entities that have adopted IFRS 15. The Company has not yet assessed the future impact of this new standard on its financial statements.

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, short-term investments, accounts payable and other accrued liabilities and fixed rate notes payable which is carried at amortized cost.

	September 30, 2018	December 31, 2017
Financial Assets		
Cash	\$191,433	\$ 56,426
Accounts receivable	135,538	41,275
Short-term investments	72,963	94,058
Total financial assets	\$399,934	\$ 191,759
Financial Liabilities		
Accounts payable and other accrued liabilities	\$294,117	\$ 242,475
Due to related parties	47,925	-
Loan payable	87,639	-
Total financial liabilities	\$429,681	\$ 242,475

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

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

Currency risk refers to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company has certain expenditures that are denominated in US dollars and other operating expenses that are in Canadian dollars. The Company's exposure to foreign currency risk arises primarily on fluctuations between the Canadian dollar and the US dollar.

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 September 30, 2018 or the year ended December 31, 2017.

Disclosure of Outstanding Share Data

The Company's issued and outstanding share capital as at the date of this report is as follows:

- (1) Authorized: Unlimited common shares without par value.
- (2) As at the date of this MD&A, the Company has 113,640,277 common shares, 5,672,500 stock options, 1,859,375 broker compensation options, 1,050,000 restricted stock units issued and outstanding.

Additional Disclosure for Junior Issuers

The Company has expensed the following material cost components:

	September 30, 2018	September 30, 2017
Amortization	146,935	-
Consulting fees	201,016	270,581

Office	130,334	146,662
Professional fees	149,679	9,233
Salaries and benefits	1,184,373	770,372
Share-based payment	162,053	-

Amortization is a non-cash expense that is related to the amortization of software development costs and patent, which started at the year-end December 31, 2017.

Consulting fees decreased because the Company terminated an advisor for business development.

Office expenses increased due to the fact that there are more employees this period compared to the previous year, expensed software development costs and not capitalized it like prior periods, and increased in the rent.

The professional fees were related to general corporate matters, preparation of brokered private placement that closed in January and July 2018, and audit accrual for fiscal year 2017.

The salaries and benefits include management and employees' salaries and benefits. The increase was due to the increased number of employees.

The share-based payment is a non-cash expense that is related to the Company granting incentive stock options and restricted stock units to its directors, officers, employees, and a consultant of the Company.

RISK FACTORS

Risks Related to our business.

Limited Operating History:

The Company is a development stage technology company, which has a limited operating history and has no revenues derived from operations. Significant expenditures have been focused on the development, testing and launch of its hospital-to-hospital marketplace platform. The Company's near-term focus has been in actively attracting new development capital and attracting new member hospitals to utilize the Company's inventory-trading platform. As a result of these and other factors, the Company may not be able to achieve, sustain or increase profitability on an ongoing basis. The Company is subject to many risks common to development stage enterprises, including under capitalization, cash shortages, limitations with respect to personnel, financial and other resources, lack of revenues, technology, and market acceptance issues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the Company's early stage of operations.

Problems Resulting from Rapid Growth:

The Company will be pursuing, from the outset, a plan to market its platform solutions to hospitals in North America and globally and will require capital in order to meet these growth plans and there can be no assurances that the Company's capital resources will enable the Company to meet these growth needs. The plan will place significant demands upon the Company's management, and resources. Besides attracting and maintaining qualified personnel, employees or contractors, the Company expects to require working capital and other financial resources to meet the needs of its planned growth. No assurance exists that the plans will be successful or that these items will be satisfactorily handled, and this may have material adverse consequence on the business of the Company.

Additional Financing will be Required:

The Company will need additional financing to continue its operations. Financing may not be available to the Company on commercially reasonable terms, if at all, when needed. There is no assurance that the Company will be successful in raising additional capital or that the proceeds of any future financings will be sufficient to meet its future capital needs.

Intellectual Property Rights

The Company could be adversely affected if it does not adequately protect its intellectual property rights. The Company regards its marks, rights, and trade secrets and other intellectual property rights as critical to its success. To protect its investments and the Company's interests in these various intellectual properties, it may rely on a combination of patents, trademark and copyright law, trade secret protection and confidentiality agreements and other contractual arrangements with its employees, clients, strategic partners, acquisition targets and others to protect proprietary rights. There can be no assurance that the steps taken by the Company to protect proprietary rights will be adequate or that third parties will not infringe or misappropriate the Company's copyrights, trademarks and similar proprietary rights, or that the Company will be able to detect unauthorized use and take appropriate steps to enforce rights. In addition, although the Company believes that its proprietary rights do not infringe on the intellectual property rights of others, there can be no assurance that other parties will not assert infringement claims against the Company. Such claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources.

Risk of System Failures

The Company's success, and in particular its ability to facilitate trades successfully and provide high quality customer service, depends on the efficient and uninterrupted operation of its computer and communications hardware systems. Substantially all of the Company's computer hardware for operating the Company service is located at Suite 132 850 E. Spokane Falls, Blvd. Spokane Washington and at dedicated hosted server facilities globally. These systems and operations are vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunication failures, break-ins, sabotage, intentional acts of vandalism and similar events. Despite any precautions taken by, and planned to be taken by the Company, the occurrence of a natural disaster or other unanticipated problems at the Simple Helix facility could result in interruptions in the services provided by the Company. In addition, the failure by Simple Helix – (The global leader in hosting custom e-commerce solutions) to provide the data communications capacity required by the Company, as a result of human error, natural disaster or other operational disruption, could result in interruptions in the Company's service. We have tried to minimize this risk licensing dedicated servers that are replicated in multiple locations globally. Any damage to or failure of the systems of the Company could result in reductions in, or terminations of, the Company service, which could have a material adverse effect on the Company's business, results of operations and financial condition.

In the case of frequent or persistent system failures, the Company's reputation and name brand could be materially adversely affected. Although the Company has implemented certain network security measures, its servers are also vulnerable to computer viruses, physical or electronic break-ins and similar disruptions, which could lead to interruptions, delays, loss of data or the inability to complete customer auctions. In addition, although the Company works to prevent unauthorized access to the Company data, it is impossible to eliminate this risk completely. The occurrence of any and all of these events could have a material adverse effect on the Company business, results of operations and financial condition.

Rapid Technological Change

The business of the Company is subject to rapid technological changes. Failure to keep up with such changes may adversely affect the business of the Company. The Company is subject to the risks of companies operating in the medical and healthcare business.

The market in which the Company competes is characterized by rapidly changing technology, evolving industry standards, frequent new service and product announcements, introductions and enhancements and changing customer demands. These market characteristics are exacerbated by the emerging nature of the Web and the apparent need of companies from a multitude of industries to offer Web-based products and services. Accordingly, the Company's future success will depend on its ability to adapt to rapidly changing technologies, to adapt its services to evolving industry standards and to continually improve the performance, features and reliability of its service in response to competitive service and product offerings and evolving demands of the marketplace. The failure of the Company to adapt to such changes would have a material adverse effect on the Company's business, results of operations and financial condition. In addition, the widespread adoption of new Internet, networking or telecommunications technologies or other technological changes could require substantial expenditures by The Company to modify or adapt its services or infrastructure, which could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company's prospects must be considered in light of the risks, expenses, shifts, changes and difficulties frequently encountered with companies whose businesses are conducted on the Internet due to the rapid creation, introduction and adoption of new diagnostic and treatment technologies. As a result, an investment in securities of the Company is highly speculative and is only suitable for investors who recognize the high risks involved and can afford a total loss of investment. Additionally, there can be no assurances that The Company will be able to successfully secure, introduce and adopt new software and integration technologies so as to implement its business strategy or otherwise overcome the risks generally associated with companies whose businesses are conducted on the Internet.

Risks associated with New Services, Features and Functions

The Company plans to expand its operations by developing and promoting new or complementary services, products or transaction formats or expanding the breadth and depth of services. There can be no assurance that the Company would be able to expand its operations in a cost-effective or timely manner or that any such efforts would maintain or increase overall market acceptance. Furthermore, any new business or service launched by the Company that is not favorably received by consumers could damage the Company's reputation and diminish the value of its brand name. Expansion of the Company's operations in this manner would also require significant additional expenses and development, operations and other resources and would strain the Company's management, financial and operational resources. The lack of market acceptance of such services or the Company's inability to generate satisfactory revenues from such expanded services to offset their cost could have a material adverse effect on the Company's business, results of operations and financial condition.

Risks related to Consumer Trends

The Company derives substantially all its revenues from commissions received upon the successful completion of sale transactions of the Sellers listed products on the H-Source platform. The Company's future revenues will depend upon continued demand for the types of goods that are listed by users of the Company service. The value of listed items on the Company platform will fluctuate depending on the listing of inventory for sale by its customers, the frequency of transactions and the expiry dates for certain items. These trends will cause significant fluctuations in The Company's operating results from one quarter to the next. Any decline in demand for the goods offered through the Company service as a result of changes in consumer trends could have a material adverse effect on The Company's business, results of operations and financial condition.

Online Commerce Security Risks

A significant barrier to online commerce and communications is the secure transmission of confidential information over public networks. The Company relies on encryption and authentication technology licensed from third parties to provide the security and authentication technology to effect secure transmission of confidential information. There can be no assurance that advances in computer capabilities, new discoveries in the field of cryptography, or other events or developments will not result in a compromise or breach of the technology used by The Company to protect customer

transaction data. If any such compromise of The Company's security were to occur, it could have a material adverse effect on The Company's reputation and, therefore, on its business, results of operations and financial condition. Furthermore, a party who is able to circumvent the Company's security measures could misappropriate proprietary information or cause interruptions in the Company's operations. The Company may be required to expend significant capital and other resources to protect against such security breaches or to alleviate problems caused by such breaches. Concerns over the security of transactions conducted on the Internet and other online services and the privacy of users may also inhibit the growth of the Internet and other online services generally, and the Web in particular, especially as a means of conducting commercial transactions. To the extent that activities of the Company involve the storage and transmission of proprietary information, security breaches could damage the Company's reputation and expose the Company to a risk of loss or litigation and possible liability. The Company's insurance policies carry low coverage limits, which may not be adequate to reimburse the Company for losses caused by security breaches. There can be no assurance that the Company's security measures will prevent security breaches or that failure to prevent such security breaches will not have a material adverse effect on the Company's business, results of operations and financial condition.

Risks associated with Acquisitions

If appropriate opportunities present themselves, the Company intends to acquire businesses, technologies, services or products that the Company believes are strategic. The Company currently has no understandings, commitments or agreements with respect to any other material acquisition and no other material acquisition is currently being pursued. There can be no assurance that the Company will be able to identify, negotiate or finance future acquisitions successfully, or to integrate such acquisitions with its current business. The process of integrating an acquired business, technology, service or product into the Company may result in unforeseen operating difficulties and expenditures and may absorb significant management attention that would otherwise be available for ongoing development of the Company's business. Future acquisitions could result in potentially dilutive issuances of equity securities, the incurrence of debt, contingent liabilities and/or amortization expenses related to goodwill and other intangible assets, which could materially adversely affect the Company's business, results of operations and financial condition. Any such future acquisitions of other businesses, technologies, services or products might require the Company to obtain additional equity or debt financing, which might not be available on terms favorable to the Company, or at all, and such financing, if available, might be dilutive.

Dependence on the Web Infrastructure

The success of the Company service will depend in large part upon the development and maintenance of the Web infrastructure, such as a reliable network backbone with the necessary speed, data capacity and security, or timely development of complementary products such as high speed modems, for providing reliable Web access and services. Because global commerce and the online exchange of information are new and evolving, it is difficult to predict with any assurance whether the Web will prove to be a viable commercial marketplace in the long term. The Web has experienced, and is expected to continue to experience, significant growth in the numbers of users and amount of traffic. To the extent that the Web continues to experience increased numbers of users, frequency of use or increased bandwidth requirements of users, there can be no assurance that the Web infrastructure will continue to be able to support the demands placed on it by this continued growth or that the performance or reliability of the Web will not be adversely affected. These outages and delays could adversely affect the level of Web usage and also the level of traffic and the processing of auctions on the Company.

In addition, the Web could lose its viability due to delays in the development or adoption of new standards and protocols to handle increased levels of activity or due to increased governmental regulation. There can be no assurance that the infrastructure or complementary products or services necessary to make the Web a viable commercial marketplace for the long term will be developed or that if they are developed, that the Web will become a viable commercial marketplace for services such as those offered by the Company. If the necessary infrastructure, standard or protocols or complementary products, services or facilities are not developed, or if the Web does not become a viable commercial marketplace, The Company's business, results of operations and financial condition will be materially and adversely affected. Even if the

infrastructure, standards or protocols or complementary products, services or facilities are developed and the Web becomes a viable commercial marketplace in the long term, The Company might be required to incur substantial expenditures in order to adapt its service to changing Web technologies, which could have a material adverse effect on the Company's business, results of operations and financial condition.

Risks associated with Information Disseminated through the Company's Service

The law relating to the liability of online services companies for information carried on or disseminated through their services is currently unsettled. It is possible that claims could be made against online services companies under both United States and foreign law for defamation, libel, invasion of privacy, negligence, copyright or trademark infringement, or other theories based on the nature and content of the materials disseminated through their services. Several private lawsuits seeking to impose such liability upon other online services companies are currently pending. In addition, legislation has been proposed that imposes liability for or prohibits the transmission over the Internet of certain types of information. The imposition upon the Company and other online services providers of potential liability for information carried on or disseminated through their services could require the Company to implement measures to reduce its exposure to such liability, which may require the Company to expend substantial resources and/or to discontinue certain service offerings. In addition, the increased attention focused upon liability issues as a result of these lawsuits and legislative proposals could impact the growth of Internet use. While the Company carries liability insurance, it may not be adequate to fully compensate the Company in the event the Company becomes liable for information carried on or disseminated through its service. Any costs not covered by insurance incurred as a result of such liability or asserted liability could have a material adverse effect on the Company's business, results of operations and financial condition.

Governmental Regulation and Legal Uncertainties

The Company is not currently subject to direct federal, state or local regulation, and laws or regulations applicable to access to or commerce on the Internet, other than regulations applicable to businesses generally. However, due to the increasing popularity and use of the Internet and other online services, it is possible that a number of laws and regulations may be adopted with respect to the Internet or other online services covering issues such as user privacy, freedom of expression, pricing, content and quality of products and services, taxation, advertising, intellectual property rights and information security.

Several states have also proposed legislation that would limit the uses of personal user information gathered online or require online services to establish privacy policies. The Federal Trade Commission has also recently settled a proceeding with one online service regarding the manner in which personal information is collected from users and provided to third parties. Changes to existing laws or the passage of new laws intended to address these issues, including some recently proposed changes, could create uncertainty in the marketplace that could reduce demand for the services of the Company or increase the cost of doing business as a result of litigation costs or increased service delivery costs, or could in some other manner have a material adverse effect on the Company's business, results of operations and financial condition. In addition, because the Company's services are accessible worldwide, and the Company facilitates sales of goods to users worldwide, other jurisdictions may claim that the Company is required to qualify to do business as a foreign corporation in a particular state or foreign country. The Company is qualified to do business in all fifty states in the United States, and failure by the Company to qualify as a foreign corporation in a jurisdiction where it is required to do so could subject the Company to taxes and penalties for the failure to qualify and could result in the inability of the Company to enforce contracts in such jurisdictions. Any such new legislation or regulation, or the application of laws or regulations from jurisdictions whose laws do not currently apply to the Company's business, could have a material adverse effect on the Company's business, results of operations and financial condition.

Risks associated with International Operations

A component of the Company's strategy is to expand internationally. Expansion into the international markets will require management attention and resources. The Company has limited experience in localizing its service, and the Company believes that many of its competitors are also undertaking expansion into foreign markets. There can be no

assurance that the Company will be successful in expanding into international markets. In addition to the uncertainty regarding the Company's ability to generate revenues from foreign operations and expand its international presence, there are certain risks inherent in doing business on an international basis, including, among others, regulatory requirements, legal uncertainty regarding liability, tariffs, and other trade barriers, difficulties in staffing and managing foreign operations, longer payment cycles, different accounting practices, problems in collecting accounts receivable, political instability, seasonal reductions in business activity and potentially adverse tax consequences, any of which could adversely affect the success of the Company's international operations. To the extent the Company expands its international operations and has additional portions of its international revenues denominated in foreign currencies, the Company could become subject to increased risks relating to foreign currency exchange rate fluctuations. There can be no assurance that one or more of the factors discussed above will not have a material adverse effect on the Company's future international operations and, consequently, on the Company's business, results of operations and financial condition.

Protection and Enforcement of Intellectual Property Rights

The Company regards the protection of its copyrights, service marks, trademarks, trade dress and trade secrets as critical to its future success and relies on a combination of copyright, trademark, service mark and trade secret laws and contractual restrictions to establish and protect its proprietary rights in products and services. The Company has entered into confidentiality and invention assignment agreements with its employees and contractors, and nondisclosure agreements with parties with which it conducts business in order to limit access to and disclosure of its proprietary information. There can be no assurance that these contractual arrangements or the other steps taken by the Company to protect its intellectual property will prove sufficient to prevent misappropriation of the Company's technology or to deter independent third-party development of similar technologies.

The Company pursues the registration of its trademarks and service marks in the U.S. and internationally. Effective trademark, service mark, copyright and trade secret protection may not be available in every country in which the Company's services are made available online.

To date, The Company has not been notified that its technologies infringe the proprietary rights of third parties, but there can be no assurance that third parties will not claim infringement by the Company with respect to past, current or future technologies. The Company expects that participants in its markets will be increasingly subject to infringement claims as the number of services and competitors in the Company's industry segment grows. Any such claim, whether meritorious or not, could be time-consuming, result in costly litigation, cause service upgrade delays or require the Company to enter into royalty or licensing agreements. Such royalty or licensing agreements might not be available on terms acceptable to the Company or at all. As a result, any such claim could have a material adverse effect upon The Company's business, results of operations and financial condition.

Going-Concern Risk

The financial statements of the Company have been prepared on a going concern basis under which an entity is considered to be able to realize its assets and satisfy its liabilities in the ordinary course of business. Our future operations are dependent upon the identification and successful completion of equity or debt financing and the achievement of profitable operations at an indeterminate time in the future. There can be no assurances that we will be successful in completing equity or debt financing or in achieving profitability. The financial statements do not give effect to any adjustments relating to the carrying values and classification of assets and liabilities that would be necessary should we be unable to continue as a going concern.