



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

**For the Three Months Ended March 31, 2019**

### **General**

This Management's Discussion and Analysis ("MD&A") has been prepared by management as of May 29, 2019, and it presents an analysis of the consolidated financial position of H-Source Holdings Ltd. (the "Company") for the three months ended March 31, 2019. The following information should be read in conjunction with the audited financial statements of the Corporation for the year ended December 31, 2018, 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.

## **Significant Events and Milestones**

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. The Company paid legal fees and other share issuance costs of \$53,235.

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 \$873,908 (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 \$38,953. The Company paid legal fees and other share issuance costs of \$61,776.

On August 31, 2018, 48,905 agent compensation options were exercised at C\$0.18 each.

On December 17, 2018, the Company completed a non-brokered private placement of 4,000,000 common shares at a price of C\$.10 per share for aggregate gross proceeds of \$293,643 (C\$400,000). The securities of the Company issued under this agreement were subject to a hold period which expired on April 18, 2019 in accordance with applicable Canadian securities laws. The Company paid legal fees of \$1,430.

As of December 31, 2018, the transaction volume for the last quarter was consistent with the prior quarter. This is the Company's first continuous year of revenue and we identified seasonality due to most of our hospitals having a September 30th fiscal year end. Until the hospitals' new budget dollars went into effect during our fourth quarter, purchases were on hold. This helped the start of fourth quarter, but the Company again experienced seasonality at the end of fourth quarter with the holidays. Management has taken this into account for all projections going forward. The fourth quarter was consistent with the third quarter due to the seasonality. The Company is adding inventory to its platform focusing on items from sales history that turn more quickly. With this strategic initiative in place, the inventory listed on the platform has grown from \$400,000 at the start of 2018 to over \$2,400,000 currently. The Company is also increasing its consignment inventory program for the first quarter of 2019. The Company expects to make a higher margin and realize benefits from this in the second quarter of 2019.

It should be noted that our stock fell proportionately when the overall Canadian market cap fell due to adjustments to Cannabis stocks. Recognizing this and knowing that H-Source will need to show profitability in 2019, we have made significant reductions in our operating expenses for 2019. The reductions will come in two tranches. The first in January of 2019 and the second during the second quarter of 2019. The contract cancellations and the reduction in workforce will show more effects in the second quarter of 2019 onward. The following summarizes the changes:

Tranche 1: - \$650,000 USD:

1. Reorganize Canadian operations
2. Renegotiate rental agreements
3. Renegotiate and cancel certain technology contracts
4. Reduce marketing activities
5. Reduce investor relations
6. Reduction in workforce
7. Hired a new CFO
8. Reduce salaries

Tranche 2: \$310,000 USD:

1. Marketing services reduction
2. Restructure and cancelation of technology contracts
3. Reduction in workforce

The Company is focused on increasing revenue at the same time it reduces expenses. A key focus area for the first quarter of 2019 was to identify and build an independent sales force. We have identified the leads and expect positive impacts late in the second quarter of 2019 from this initiative. We will continue to build the marketplace in 2019 and expect to expand revenue via software licensing and working with "influencers – consulting groups" who will use our platform to drive efficiencies and measurable savings for their client engagements. The Company anticipates it will see an impact from this strategy late in the second quarter and during the third quarter of 2019. The Company also expects to be able to announce some new partnerships that will help drive new revenue and technology capabilities late in the second quarter. It is anticipated that the Company will raise additional capital during the second quarter of 2019.

H-Source is well positioned for continued growth in the remainder of 2019 with the following initiatives:

1. Expanding independent sales representative network
2. Working with "influencers – consulting groups" to drive adoption
3. New partnerships
4. Adding consignment inventory
5. Adding third party inventory to the platform
6. Convert contracted users to active platform users
7. We are offering Original Equipment Manufacturer ("OEM") – new and refurbished equipment thru the Platform
8. We are sourcing capital equipment for members on request

9. 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
10. Software licensing
11. Project with large regional GPO consulting group in second quarter with benefit realized in third quarter

On May 9, 2019, H-Source announced a raise of up to \$2,500,000 USD consisting of unsecured convertible debentures with the following terms. The Debentures will mature on the date that is twelve months from the date of issuance (the “**Issue Date**”) and bear interest at a rate of 12% per annum, calculated and paid monthly in arrears commencing on the day that is 30 days from the Issue Date, on the earlier of (i) the Maturity Date or (ii) at the election of the holder and will have an original issuer discount equal to 10% of the Principal Amount (the “**OID**”). The principal amount and any accrued and unpaid interest on the Debenture may be convertible into common shares in the capital of the Company (the “**Shares**”), in whole or in part, at any time following the Issue Date but on or before the Maturity Date at a conversion price of US\$0.06 per Share. The Debentures and the Shares issuable upon the conversion of the Debentures will be subject to a statutory resale restriction for four months and one day from the date of closing. H-Source may pay finder’s fees in accordance with TSX Venture Exchange policies.

The Company intends to use the proceeds of the financing for general corporate purposes. The offering of the Debentures is subject to the receipt of all necessary approvals, including the final approval of the TSX Venture Exchange. The Debentures will not be listed or posted for trading on any exchange.

On May 29, 2019, H-Source formed a new Washington Limited Liability Corporation, HSI Sales, LLC, comprised of a sales lead implementing an independent sales representative network. The Company expects activity to start in June of 2019 and to realize tangible benefit in the third quarter of 2019.

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. Converting contracted facilities to active facilities
3. Offering enhanced services to our clients where H-Source provides additional touch – labor for a higher transaction fee
4. Shared risk engagements where we partner with the facility or group of hospitals and share a high percentage of generated savings with the client
5. Enhancing the H-Source software platform through new functionality for pharmacy, Food and Drug Administration (“FDA”) recalls, DSCSA, self distribution, member communication, data visualization and self service reporting, and system optimization for scalability to thousands of concurrent users
6. 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
7. Single Warehouse/Self Distribution implementations of the H-Source platform
8. Maintaining Joint Marketing relationships with multiple state hospital associations and metropolitan hospital councils and associations
9. Developing a large Independent Sales Representatives (“ISR”) network initially in targeted markets
10. Enhancing the H-Source Platform technology
11. Having joint projects thru various partnerships with 3<sup>rd</sup>-party and capital equipment resellers, including hospital liquidations
12. Distributing products from third parties or Original Equipment Manufacturers (“OEM”) thru the platform
13. Having H-Source Distribution and associated partnerships handle liquidation products, enhanced services, and product sourcing thru the H-Source Software Platform

## **Overall Performance**

The statement of financial position as of March 31, 2019 indicates a cash balance of \$55,189 (December 31, 2018 – \$72,864) and total current assets of \$510,051 (December 31, 2018 – \$632,098).

Current liabilities at March 31, 2019 total \$1,394,417 (December 31, 2018 - \$959,711). Shareholders' deficiency of \$(641,719) (December 31, 2018 – \$(35,582)) is comprised of share capital of \$10,024,162 (December 31, 2018 - \$10,024,162), reserves of \$782,134 (December 31, 2018 - \$774,137), accumulative other comprehensive income \$33,539 (December 31, 2018 - \$34,281), and accumulated deficit of \$(11,533,466) (December 31, 2018 - \$(10,920,074)).

As at March 31, 2019, the working capital is \$(884,366) (December 31, 2018 – \$(327,613)).

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

The Company recorded \$261,504 as revenue for the period ended March 31, 2019, which consisted of net commission sales of \$8,236 and sales of \$253,268. The expenses of the Company for the three months ended March 31, 2019 consisted mainly of salaries and benefits of \$300,905, general and administration of \$186,035, professional fees of \$52,072, advertising and promotion of \$43,193, and amortization of \$49,384.

Salaries and benefits for the three months ended March 31, 2019 amounted to \$300,905, which included employees and management's salaries, payroll taxes, and healthcare benefits.

General and administration expenses for the three months ended March 31, 2019 amounted to \$186,035, which primarily included software, travel, rent and general office expenses.

Professional fees for the three months ended March 31, 2019 amounted to \$52,072 and primarily consisted of fees for the financial statement audit and preparation of tax returns and fees paid to advisors of the Company for business development.

Advertising and promotion for the three months ended March 31, 2019 amounted to \$43,193, which is related to sponsorship, public relations, sales strategies, and sales plan development.

Amortization for the three months ended March 31, 2019 amounted to \$49,384 and includes amortization of software development costs and patents.

## **Comparison of Results of Operations**

During the three months ended March 31, 2019, the Company reported \$253,268 as revenue and net commission sales of \$8,236, a net loss of \$613,392 and a net comprehensive loss of \$614,134 (\$0.01 basic and diluted loss per share); compared to revenue of \$241,361 and net commission sales of 53,097, a net loss of \$626,153, and comprehensive loss of \$566,746 (\$0.01 basic and diluted loss per share) for the three months ended March 31, 2018. The Company's gross profit decreased by \$37,391 compared to 2018, operating expenses decreased by \$74,080, and net interest and finance costs increased by \$23,928, resulting in a decrease of \$12,761 in the Company's net loss during the first quarter of 2019 compared to 2018.

During the three months ended March 31, 2019, the Company recorded operating expenses of \$659,895 (2018 - \$733,975). The decrease in operating expenses consisted primarily of decreases in consulting fees, general and administration, and salaries and benefits, offset by an increase in advertising and promotion expenses. Consulting fees of \$20,309 (2018 - \$75,158) decreased during 2019 because the Company did not retain an advisor for business development that was utilized during 2018 and reduced fees incurred for financial management services from 2018. General and administration expenses of \$186,035 (2018 - \$215,645) decreased primarily due to the elimination of certain expenditures related to business

development, computer and internet services during 2019. Salaries and benefits of \$300,905 (2018 - \$325,415) decreased during 2019 due to a reduction in the number of employees compared to 2018. The increase in advertising and promotion expenses \$43,193 (2018 – \$25,457) was mainly associated with increased utilization of public relations and social media services during 2019.

Interest and other finance costs of \$22,936 (2018 - \$419) includes interest and profit sharing costs incurred in accordance with the terms of loan agreements the Company entered into subsequent to the first quarter of 2018.

The net comprehensive loss of \$614,134 (2018 - \$566,746) was affected by the foreign exchange translation on the transactions recorded in H-Source Holdings Ltd., which totaled \$(742) for the three months ended March 31, 2019 (2018 - \$59,407).

As the Company’s operations only recently began to generate revenue, it will continue to rely on equity and debt financing in order to meet its ongoing day-to-day operating requirements. There can be no assurance that financing, whether debt or equity, will be available to the Company in the amount required at any particular time, or, if available, that it can be obtained on terms satisfactory to the Company.

### Summary of Quarterly Results

The following table sets out selected unaudited quarterly financial information of the Company. This information is derived from unaudited quarterly financial statements prepared by management. These financial data are prepared in accordance with IFRS.

	Qtr. 1 March 31, 2019 \$	Qtr. 4 Dec. 31, 2018 \$	Qtr. 3 Sept. 30, 2018 \$	Qtr. 2 June 30, 2018 \$	Qtr. 1 March 31, 2018 \$	Qtr. 4 Dec. 31, 2017 \$	Qtr. 3 Sept. 30, 2017 \$	Qtr. 2 June 30, 2017 \$
Revenue	261,504	251,960	273,528	471,112	294,458	173,397	128,408	7,439
Net Loss	613,392	842,833	880,103	705,001	626,153	1,154,697	443,355	565,517
Basic and diluted loss per share	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Total assets	752,698	924,129	935,631	1,203,332	1,481,674	847,990	1,854,940	2,262,995
Working Capital	(884,366)	(327,613)	157,920	73,619	740,259	129,508	894,282	1,309,208

### Three Months Ended March 31, 2019

During the three months ended March 31, 2019, the Company reported revenue of \$261,504 (2018 – \$294,458) and a net loss of \$613,392 (2018 – \$626,153). The net loss overall decreased during the first quarter of 2019 compared to the first quarter of 2018 mainly because of decreased operating expenses offset by an increase in interest and other finance costs. As at March 31, 2019 total assets were \$752,698 compared to \$1,481,674 as at March 31, 2018. The decrease in total assets was primarily due to the utilization of cash and short-term investments for operating activities.

### Liquidity and Capital Resources

For the three months ended March 31, 2018, the Company generated \$135,000 from financing activities compared to \$1,080,046 for the quarter ended March 31, 2018. The Company reported net cash provided by investing activities of \$4,100 for the quarter ended March 31, 2019 compared to net cash used by investing activities of \$321,762 for the quarter

ended March 31, 2018. The net cash used in operating activities was \$156,759 for the three months ended March 31, 2019 compared to \$564,967 for the three months ended March 31, 2018.

At March 31, 2019, the Company had working capital of \$(884,366), aggregate cash and short-term investments of \$70,155, and accounts payable and accrued liabilities of \$917,322.

A summary of the Company's contractual obligations at March 31, 2019 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 and other accrued liabilities	\$ 917,322	\$ 917,322	N/A	N/A	N/A
Interest and profit sharing	83,513	83,513	N/A	N/A	N/A
Due to related parties	57,925	57,925	N/A	N/A	N/A
Loans payable	335,657	335,657	N/A	N/A	N/A
Total	\$ 1,394,417	\$ 1,394,417	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 three months ended March 31, 2019 was \$88,760 (2017 - \$75,000).

As at March 31, 2019, \$41,950 (2018 - \$nil) and \$15,975 (2018 - \$nil) were due to related parties for bonuses and other amounts payable to the Company's CEO and President respectively.

On February 25, 2019, the Company issued a \$35,000 unsecured promissory note payable to the president of the Company. The promissory note bears interest at a rate of 10% and matures on February 25, 2020. As at March 31, 2019, the Company repaid \$nil of the principal amount and \$321 was accrued as interest payable.

As at March 31, 2019, the Company owed \$39,990 (2017 - \$nil) for a loan payable to a director and \$5,551 (2018 - \$nil) in related interest and profit sharing payable. The loan bears an interest rate of 2% per month (24% per annum) and has a term of 120 days commencing on the date on which the principal amount was advanced to the Company. The loan was utilized to purchase certain assets and if the sale of those assets occurs on or before 120 days, 10% of the net proceeds shall be paid to the director. If the sale of the assets occurs after 120 days, 20% of the net proceeds shall be paid to the director.

## Recent Accounting Pronouncements

The following is a summary of recent accounting pronouncements the Company reasonably expects to be applicable at a future date. The Company adopted the following standard as of the effective date.

### 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. As the Company does not currently have any leases, this standard is not expected to impact the 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, due to related parties and loans payable.

	March 31, 2019	December 31, 2018
<b>Financial Assets</b>		
Cash	\$ 55,189	\$ 72,864
Accounts receivable	192,837	207,676
Short-term investment	14,966	18,655
<b>Total financial assets</b>	<b>\$ 262,992</b>	<b>\$ 299,195</b>
<b>Financial Liabilities</b>		
Accounts payable on other accrued liabilities	\$ 917,322	\$ 648,843
Due to related parties	57,925	47,925
Loans payable	335,657	200,657
<b>Total financial liabilities</b>	<b>\$ 1,310,904</b>	<b>\$ 897,425</b>

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 liquid assets 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 three months ended March 31, 2019.

### **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 117,640,277 common shares, 5,007,500 stock options, 1,859,375 broker compensation options, and 990,000 restricted stock units issued and outstanding.

### **Additional Disclosure for Junior Issuers**

The Company has expensed the following material cost components for the three months ended March 31, 2019 and 2018:

	March 31, 2019	March 31, 2018
Advertising and promotion	\$ 43,193	\$ 25,457
Amortization	49,384	48,854
Consulting fees	20,309	75,158
Office	27,960	60,938
Professional fees	52,072	43,446
Rent	15,449	15,449
Salaries and benefits	300,905	325,415
Share-based payments	7,997	-
Software expense	112,209	97,168
Transfer agent and regulatory fee	8,083	11,811
Travel	22,334	30,279

Advertising and promotion expenditures increased during 2019 primarily due to the company utilizing a public relations and social media agency for three months during 2019 compared to one month during 2018.

Amortization is a non-cash expense that is related to the amortization of software development costs and patents.

Consulting fees decreased because the Company utilized an advisor for business development and capital market advisory services during 2018 that it did not utilize during 2019. The Company also reduced the fees incurred for financial management services during 2019 compared to 2018.

Office expenses decreased during 2019 primarily due to the elimination of certain expenditures related to business development as well as computer and internet expenditures incurred during 2018.

Software expenses increased during 2019 due to increased support and development requirements as the software platform increases data, functionality and use.

The professional fees were related to general corporate matters, preparation of brokered private placement that closed in January of 2018, preparation of tax returns, and financial statement audit. The increase in fees during 2019 was mainly due to an increase in fees for the audit and tax return preparation.

The decrease in salaries and benefits during 2019 was due to a decreased number of employees during the first quarter of 2019 compared to the first quarter of 2018.

Share-based payments are a non-cash expense that relates to stock options and restricted stock units granted to directors, officers, employees and a consultant of the company during the third quarter of 2018.

### **Subsequent Events**

On May 10, 2019, the Company announced a non-brokered financing of unsecured convertible debentures in the principal amount of up to \$2,500,000 (before OID as defined below). The debentures will mature on the date that is twelve months from the date of issuance and bear interest at a rate of 12% per annum, calculated and paid monthly in arrears commencing on the day that is 30 days from the issue date, on the earlier of (i) the maturity date or (ii) at the election of the holder and will have an original issuer discount equal to 10% of the principal amount (the "OID").

The principal amount and any accrued and unpaid interest on the debenture may be convertible into common shares in the capital of the Company, in whole or in part, at any time following the issue date but on or before the maturity date at a conversion price of \$0.06 per share. The debentures and the shares issuable upon the conversion of the debentures will be

subject to a statutory resale restriction for four months and one day from the date of closing. The Company may pay finder's fees in accordance with TSX Venture Exchange policies and intends to use the proceeds of the financing for general corporate purposes. The offering of the debentures is subject to the receipt of all necessary approvals, including the final approval of the TSX Venture Exchange. The debentures will not be listed or posted for trading on any exchange.

On May 29, 2019, H-Source formed a new Washington Limited Liability Corporation, HSI Sales, LLC, comprised of a sales lead implementing an independent sales representative network. The Company expects activity to start in June of 2019.

## **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 only recently began generating 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 120 N. Pines Rd., 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 of 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, causes 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.