

Trickle Research

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



Research Notes



H-Source Holdings Ltd.

(Symbol: OTC: HSCHF; Canada: HSI.V)

www.h-source.com

Report Date: 09/24/19

12- 24 month Price Target: \$.19

Allocation: 4

Closing Stock Price at Initiation (Closing Px: 04/09/19): \$.055

Closing Stock Price at This Update (Closing Px: 09/24/19): \$.037

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Disclosure: Portions of this report are excerpted from H-Source's filings, website(s), presentations or other public collateral. We have attempted to identify those excerpts by *italicizing* them in the text.

We initiated coverage of H-Source a few months ago, but the Company has been relatively quiet since. Notably, since that time they completed a much needed \$2 million convertible raise and they announced 2Q results which were a bit below our expectations, which as an only “slightly beyond” pre-revenue Company was not particularly cogent. However, we submit we would always prefer that they exceed our expectations as opposed to miss them, and while they needed the capital, dilution on the face is not generally good either, so on a net basis, the news since the initiation has been less that positive.

On the other hand, the Company made the following announcement today regarding a highly positive collaboration, which we will address below:

H-Source Announces Move to EY OpsChain Blockchain Platform

CNW Group•September 23, 2019

VANCOUVER , Sept. 23, 2019 /CNW/ - H-Source Holdings Ltd. (TSXV: HSI; OTCQB: HSCHF) (the "Company" or "H-Source") is pleased to announce that it is expanding its technology offering by moving to the EY OpsChain blockchain platform in order to facilitate greater opportunities in healthcare.

"The H-Source platform is currently built with robust GS-1, UDI/GTIN and DSCSA "Track and Trace" capabilities. Combining our platform with the best in class EY OpsChain will be a significant step forward in our mission to provide new healthcare solutions in the US and Globally," said John Kupice, CEO/director of H-Source. "The H-Source vision of supply chain transformation facilitating communication and collaboration to drive efficiencies, combines well with the EY focus on making connections a key component of global health. We appreciate the opportunity to work with EY on new initiatives."

"We're excited to support H-Source in enabling the healthcare industry to access the products and tools they need more sustainably," says Abhishek Sinha, EY Canada Blockchain Leader. "EY OpsChain helps companies simplify supply chain management and seamlessly integrate everything from digital contracts and shared inventory to logistics information."

"Scaling and industrializing privacy technology has been a big priority for EY," says Paul Brody, EY Global Blockchain Leader. "H-Source will be one of the very first commercial implementations of EY OpsChain and we're very proud of our work for H-Source on this front."

Recognize, the “EY OpsChain” is an initiative of “EY” aka Ernst and Young. According to EY, “*EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services they deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities*”. Just to frame the notion, here is a topical excerpt from our initiating coverage:

...The Company has also talked about partnering with “influencers” and consultants. Given the complexities in healthcare space it is not hard to believe that the industry relies heavily on consultants of all types. These consultants address many parts of the industry, including the supply chain and are often well entrenched in the operations and decisions of their clients. Recognize, H-Source CEO John Kupice worked for Ernst and Young LLP, one of the larger consultants in the healthcare space prior to coming to H-Source. His experiences there are integral to Company’s roadmap, which we believe will include creating relationships with consultants who can potentially introduce the

Company's platform to their customers. Those types of relationships could lead to collaborations wherein HSI could provide the platform as part of the consultant's engagement and receive some portion of the consultant's fees which might be based on portions of cost saving or other similar metrics. They may be able to provide similar arrangements with other influencers like Group Purchasing Organizations ("GPO's") that could introduce the platform to their buying group and retain a portion of the saving generated there as well...

To edify, EY is a large global consulting firm addressing a variety of industries including healthcare. While we certainly don't know the minutia, we don't think H-Source partnering with EY is a coincidence given H-Source CEO John Kupice's tenure at EY. We think this relationship provides both validation for the Company's technology and platform and *perhaps*, some of the marketing scale we alluded to in the initial coverage in terms of access to new customers (collaboration with EY clients?) and revenue streams (software licensing and other). Further, while this particular blockchain initiative is topical to some of the news we have seen out of the industry in terms of things that need fixing (pharmaceutical tracking for instance), we frankly think there are many other applications that this could likely touch in both healthcare and other related and even unrelated industries.

To that end, to revisit a portion of our thesis from the initiating coverage, H-Source is a *very small* company with a *very small* market cap (roughly \$5 million). From the 10,000-foot view, we are essentially betting on the notion that they don't have to conquer the healthcare industry to make the Company worth considerably more than it is valued at today. Further, we would reiterate, We think this new relationship with EY provides both validation for the Company's technology and platform and *perhaps*, some of the marketing scale we alluded to in the initial coverage in terms of access to new customers (collaboration with EY clients?) and revenue streams (software licensing and other). We feel quite comfortable suggesting that very small companies entering collaborations with very large companies like this no simple task. Further, it generally does not happen at all unless the small player has an offering worthy of the time, energy and collaboration of those bigger players. Moreover, those larger players do not jeopardize their relationships with products and services of smaller players unless they are certain they work the way they are supposed to, and they deliver clear values.

The above said, while this arrangement clearly requires additional efforts, resources etc. so it certainly does not guarantee any success for H-Source on the face, all things considered, while the market may or may figure this out right away (we sense they have some frustrated and tired legacy shareholders who may be looking for liquidity), we view this as a potential fundamental watershed event for the Company. Further, we also believe this particular collaboration could provide H-Source with entrees into other healthcare verticals or perhaps other industries entirely. This is, in our opinion, a highly positive development for this tiny company.

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There are no letters in the rating system (Buy, Sell Hold), only numbers. The numbers range from 1 to 10, with 1 representing 1 "investment unit" (for my performance purposes, 1 "investment unit" equals \$250) and 10 representing 10 investment units or \$2,500. Obviously, a rating of 10 would suggest that I favor the stock (at respective/current levels) more than a stock with a rating of 1. As a guideline, here is a suggestion on how to use the allocation system.

Our belief at Trickle is that the best way to participate in the micro-cap/small cap space is by employing a diversified strategy. In simple terms, that means you are generally best off owning a number of issues rather than just two or three. To that point, our goal is to have at least 20 companies under coverage at any point in time, so let's use that as a guideline. Hypothetically, if you think you would like to commit \$25,000 to buying micro-cap stocks, that would assume an investment of \$1000 per stock (using the diversification approach we just mentioned, and the 20-stock coverage list we suggested and leaving some room to add to positions around allocation upgrades. We generally start initial coverage stocks with an allocation of 4. Thus, at \$1000 invested per stock and a typical starting allocation of 4, your "investment unit" would be the same \$250 we used in the example above. Thus, if we initiate a stock at a 4, you might consider putting \$1000 into the position ($\$250 * 4$). If we later raise the allocation to 6, you might consider adding two additional units or \$500 to the position. If we then reduce the allocation from 6 to 4 you might consider selling whatever number of shares you purchased with 2 of the original 4 investment units. Again, this is just a suggestion as to how you might be able to use the allocation system to manage your portfolio.

For those attached to more traditional rating systems (Buy, Sell, Hold) we would submit the following guidelines.

A Trickle rating of 1 thru 3 would best correspond to a "Speculative Buy" although we would caution that a rating in that range should not assume that the stock is necessarily riskier than a stock with a higher rating. It may carry a lower rating because the stock is trading closer to a price target we are unwilling to raise at that point. This by the way applies to all of our ratings.

A Trickle rating of 4 thru 6 might best (although not perfectly) correspond to a standard "Buy" rating.

A Trickle rating of 7 thru 10 would best correspond to a "Strong Buy" however, ratings at the higher end of that range would indicate something that we deem as quite extraordinary..... an "Extreme Buy" if you will. You will not see a lot of these.