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

Initiating Research Coverage

H·SOURCE

H-Source Holdings Ltd.

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

www.h-source.com

Report Date: 04/09/19

12- 24 month Price Target: $.19

Allocation: 4

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

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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.

Company Overview

H-Source Holdings Ltd. ("HSI") 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. Members can conduct secure transactions within Integrated Delivery Networks (IDNs), Group Purchasing Organizations (GPOs), the complete H-Source network, or customize their own group of hospitals using our built-in filters and reporting. This network is designed specifically to reduce health care costs and medical products waste.

The Company was incorporated in 2014 as the vision of Company Founder Murray Walden. Mr. Walden spent 15 years as "*a medical device sales representative and manager for multiple companies ranging from specialty distributors to Fortune 500 companies*". During that time, he developed a considerable base of tribal knowledge regarding the healthcare industry, especially with respect to hospital supply chains, inventories and other critical processes as well as a deep understanding of major industry components such as Group Purchasing Organizations "GPO" and Integrated Delivery Networks "IDN". That experience led him to the founding/development of the H-Source platform/marketplace. In the process of forming the Company, Mr. Walden solicited the help of current CEO John Kupice to help develop a business plan and other critical parts of the launch. As we will illustrate further in this report, Mr. Kupice's professional endeavors included a variety of disciplines that were particularly germane to the platform H-Source was attempting to develop including healthcare, technology and finance experiences.

The Company's goal since inception has been to develop a *technology-based marketplace* for hospitals and other healthcare constituents, to buy/sell/transfer healthcare supplies and equipment that might otherwise go unutilized and thus effectively wasted. The Company spent fiscal/calendar 2015 and 2016 developing the technology platform to support the marketplace. Through that development, the Company realized that the platform would need to be both robust but also intuitive enough to be embraced by an industry that has historically demonstrated some resistance to technological change, especially from a business perspective. In our view, one needs to look no further than the industry's "kicking and screaming" adoption of electronic medical records to support that notion. Recognize, the development of the platform has been complex, and its completion marked a major milestone for the Company. Our view is that the current valuation of the stock is not representative of the potential value the platform represents in terms of providing savings to an industry that is notorious for waste.

In late 2016, following 2 years and approximately $5 million of development, the Company commenced the commercialization of the business, which largely included the active marketing of the platform/marketplace to hospitals and hospital groups. Since the commencement of commercialization, the Company has steadily added what they refer to as "contracted facilities" (those who have been added on the platform) as well as "active facilities" (contracted facilities that are transacting the marketplace). In turn, those additions have led to steady growth in revenues. For instance, the Company's most recently reported numbers reflect revenues of $960,000 for the 9-month period ending 09/30/18 versus $136,000 for the same period in 2017. We believe 2019 could represent a breakout year for the Company, which may include exiting the year at or near operating cashflow breakeven run rates.

From a valuation perspective, we believe improved operating results should support improved valuations for the Company on the face. However, we also believe that if HSI is successful in growing the marketplace network (both in terms of users and utilization thereof), the intrinsic value of the network could fetch marked multiples going forward. Without wading too far into the conceptual weeds of Metcalfe's Law and/or Increasing Marginal Returns, the fact is, every hospital the Company can add to the system, and each one of those that becomes active, should provide exponential value to the network. That is, each new enterprise added should make every prior enterprise more valuable to the whole. Again, we suspect the time frame of our price targets could include results that will provide a basis for multiples that ultimately focus on not only operating results, but also the implied value of the network.

Industry Overview

The National Health Expenditure Accounts ("NHEA") are *"the official estimates of total health care spending in the United States"* and according to their data *"U.S. health care spending grew 3.9 percent in 2017, reaching $3.5 trillion or $10,739 per person. As a share of the nation's Gross Domestic Product, health spending accounted for 17.9 percent".* NHEA has been measuring this information since 1960 and the data indicate that healthcare spending as a percentage of GDP has never been higher. Further, estimates suggest it is likely to climb higher still. While there are certainly demographic reasons for some of that change (an aging U.S. population for instance), the minutia behind the healthcare industry is complex to say the least, with many constituents with varying priorities some in direct conflict to one another. The industry, in our view, is increasingly becoming a zero-sum game. What is perhaps even more discouraging is that while the U.S. is spending more on healthcare per capital than any other country in the world, the system's performance vis-à-vis those same proxies is consistently rated as underperforming by many who compile such things. We're not sure those methodologies always compare apples to apples, but for those who deal with the U.S. healthcare system on a regular basis, whether they be providers, payers or consumers, there are many who will have little problem supporting those conclusions.

Trying to solve the U.S. healthcare dilemma is well beyond both the scope of this report and frankly our pay grade, however, there are some elements to the industry worth noting especially as some of those things relate to what we view as H-Source's opportunities in the space.

From the 10,000-foot view, in 2013 the Institute of Medicine ("IOM") created a report called: ***Best Care at Lower Cost- The Path to Continuously Learning Health Care in America.*** That report, among other things notes the following:

"Healthcare in America presents a fundamental paradox. The past 50 years have seen an explosion in biomedical knowledge, dramatic innovation in therapies and surgical procedures, and management of conditions that previously were fatal, with ever more exciting clinical capabilities on the horizon. Yet, American health care is falling short on basic dimensions of quality, outcomes, costs, and equity. Available knowledge is too rarely applied to improve the care experience, and information generated by the care experience is too rarely gathered to improve the knowledge available. The traditional systems for transmitting new knowledge—the ways clinicians are educated, deployed, rewarded, and updated—can no longer keep pace with scientific advances. If unaddressed, the current shortfalls in the performance of the nation's health care system will deepen on both quality and cost dimensions, challenging the well-being of Americans now and potentially far into the future… These shortfalls are occurring even as costs are rising to unsustainable levels. … ***Additionally, new opportunities emerging from technology****, industry, and policy can be leveraged to help mold the system into one characterized by continuous learning and improvement. In this context, (the committee) identified three imperatives for achieving a continuously learning health care system that provides the best care at lower cost: (1) managing rapidly increasing complexity; (2) achieving greater value in health care; and (3)* ***capturing opportunities from technology****, industry, and policy".* *https://www.ncbi.nlm.nih.gov/books/NBK207212/* .

The report goes on to make some additional interesting observations that we also think may speak presciently to some of the problems with our current healthcare system vis-à-vis other industries:

Consider the impact on American services if other industries routinely operated in the same manner as many aspects of health care. We will reference to a few of these further in this report.

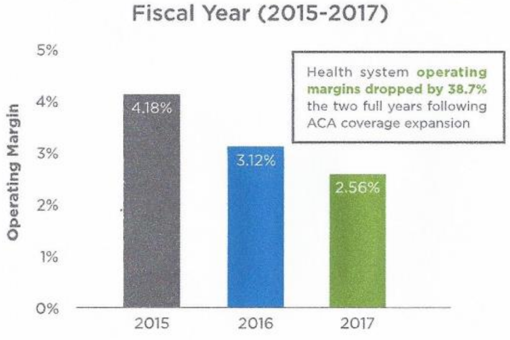
- *If banking were like health care, automated teller machine (ATM) transactions would take not seconds but perhaps days or longer as a result of unavailable or misplaced records.*
- *If home building were like health care, carpenters, electricians, and plumbers each would work with different blueprints, with very little coordination.*
- *If shopping were like health care, product prices would not be posted, and the price charged would vary widely within the same store, depending on the source of payment.*
- *If automobile manufacturing were like health care, warranties for cars that require manufacturers to pay for defects would not exist. As a result, few factories would seek to monitor and improve production line performance and product quality.*
- *If airline travel were like health care, each pilot would be free to design his or her own preflight safety check, or not to perform one at all.*

Certainly, some of the problems with our healthcare system are related to the complexities and the pace of advances noted above. Moreover, as we alluded to, those complexities include and are magnified by many constituents often with dichotomous goals. Unfortunately, the outcomes of those various constituents are often a function of the influence they wield within the industry and their abilities to take advantage of the same, which leads to the zero-sum nature we addressed above. That is, in many cases a variable or change that benefits a particular constituency tends to come at the expense of another. For instance, how people view the Affordable Care Act often depends on whether they are one of those who now have (subsidized) medical insurance because of it, or one of those who's (unsubsidized) premiums have risen dramatically since its adoption.

Beyond healthcare consumers, it appears that at least some portions of the healthcare provider continuum are also ending up on the short end of the zero-sum paradigm. Over the past few years, many hospitals have seen meaningful declines in their margins, while others have thrown in the towel altogether.

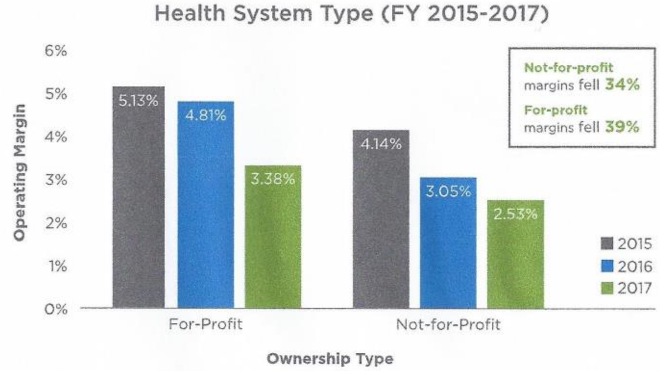
In that regard, A 2018 report from the law firm Polsinelli concludes that *"the healthcare industry has experienced more than 20 hospital bankruptcies since 2016"*. From another angle, a recent study from Navigant *examined audited financial reports for 104 for- and nonprofit systems, which operate 2,289 hospitals. The study* concluded that "*a majority of health systems experienced operating margin declines after ACA insurance coverage expansion. The study also found that "Sixty-five percent of analyzed systems saw operating income declines from fiscal year 2015 to fiscal year 2017. Additionally, 27 percent of analyzed systems lost operating income in at least one of the three fiscal years studied, and 11 percent had negative operating margins from fiscal years 2015 through 2017. Operating income declines overall during the three fiscal years studied totaled $6.8 billion, and analyzed systems saw average operating margin declines of 38.7 percent. For-profit system margins fell more than nonprofit margins (39 percent versus 34 percent).*

Figure 1: Average Operating Margin by Fiscal Year (2015-2017)



Source: Navigant

Figure 2: Average Operating Margin by Health System Type (FY 2015-2017)



Even in the context of the zero-sum environment we have suggested here, it is almost counterintuitive to think that in an industry that continues to capture an increasing share of GDP, with an aging customer base that typically requires increasing amounts of the industry's products and services in the midst of the second longest (soon-to-be longest) economic expansion in the history of the nation we have integral portions of the industry's ecosystem experiencing shrinking margins and bankruptcy. Clearly, the industry has some "issues" and that often means opportunity for those who can help address some of the disfunction. Specifically, we think one of the major pain points for hospitals and similar providers is supply chain management, which is the focus of HSI.

Additional information from Navigant suggests the following supply chain data:

According to the study, hospitals could safely reduce their supply expenses by an average of 17.7% or $11 million annually per hospital. This equates to an annual cumulative savings opportunity of $25.4 billion — a 10.2% increase compared to 2017.

A deeper dive into the data also reveals that:

- *Lower supply spending isn't negatively impacting quality at facilities with more efficient supply spending.*
- *Equal savings opportunities exist across multiple hospital characteristics, including size, location, and for-profit or not-for-profit status.*

Before we move on, consider this for a moment. Per the above graphic, if supply chain problems such as those HSI helps solve costs some single hospitals $11 million per year, and HSI's systems generally takes 20% of the waste that is mitigated as its fee, one could rationalize that HSI's share of those savings from a single hospital would approximate all the revenues we are projecting for the Company in 2019.

A recent article from Modern Healthcare notes that *"supply chain costs are often providers' second-highest expenses behind labor* (some forecast believe it is on its way to becoming **the largest** expense). *Hospitals and health systems have a renewed focus on squeezing every dollar out of the care continuum as new payment models* *emerge, reimbursement from payers shrinks and expenses rise…**The supply chain is one of many elements in healthcare delivery that is poised for an overdue transformation".***

https://www.modernhealthcare.com/article/20180203/NEWS/180209982/cutting-links-out-of-the-healthcare-supply-chain

We think the above helps illustrate at few salient points about the healthcare industry, the hospitals within the healthcare industry, the supply chains within those hospitals and the opportunities it all may create for H-Source.

First, to reiterate something we stressed above, we think the healthcare industry carries some zero-sum elements to it that shape the industry and impact virtually all the players. We keep mentioning that like it is unique, which it is not necessarily. Afterall, many participants in many industries along their respective supply chains end up competing for portions of the same dollar. However, in healthcare we think that may be pronounced because of the relative nature of those players as well as some other nuances that go along with them. For instance, the healthcare ecosystem includes some of the largest and/or most influential enterprises in the world (Pharma, insurance, GPO's and others), as well as multiple and powerful portions of the federal (and state) government(s) (HHS, FDA, Medicare, Medicaid and others). On the other end of that spectrum, it also includes for example small rural hospitals that get to vie with the a fore mentioned for their piece of the pie, which frankly makes David and Goliath look like a fair fight. Incidentally, the industry also includes nearly every American citizen. Estimates suggest that; 1 in 8 Americans is employed by the industry, and it currently accounts for 1/6th of the nation's entire GDP. The healthcare industry is ubiquitous. Given the breadth and depth of the industry, its not hard to understand why it is so complex and, why as the IOM report referenced above suggests, it is NOT like so many other industries.

As the IOM report alludes, one of the industry's biggest problems is its inability and/or willingness to access/share information across the echo system. Among other things, certainly some of that is a matter of regulation (HIPPA), some of that is a matter of the desire (or lack thereof) for transparency and some of that is a function of capability. As some of the industry sourced narrative above suggests, technology may provide some relief from the complexities and associated costs that hospitals are experiencing and in the case of H-Source, that means applying technology-based solutions to tighten up and wring the costs out of their supply chains. Recognize, while the initial glance of the H-Source model looks like a "marketplace", we think the bigger picture is to deliver a *platform* service that helps integrate the individual "silos" of information that hospitals seem to have trouble synergizing. We believe there is a marked opportunity for companies that can help rationalize, aggregate and share relevant data and other information across the healthcare supply chain.

Product/Services Overview

We submit, when we first heard the H-Source story, our initial reaction was that they were building a medical supply "marketplace" where participants (hospitals, surgery centers etc.) could exchange excess inventory, which we likened to eBay for bandages. While the marketplace may be an element of the story, it is (more) clear to us that the Company has developed a platform to help applicable healthcare providers better manage their supply chains from front to back, and ultimately save money through efficiencies and better pricing. As we noted in the initial introduction above, the backbone of that platform was conceived through the founders' "boots on the ground" experiences in the space, and they have spent several million dollars, and the better part of the past 4 years developing and evolving that platform into something they believe can provide marked value to healthcare facilities looking to address their supply chain challenges. While we are not suggesting their approach and/or their technology is going to turn the legacy healthcare supply chain on its head, we think it is important to recognize that their offering is much broader and more robust than an electronic bulletin board where hospitals can offload things they don't use anymore. The Company's IP is a patented, and elegant platform built to address multiple facets of the supply chain that they believe can deliver measurable and significant savings to its users. Further, we believe they developed the platform around the notion of expanding its functionality to add value, which may include emerging technologies (blockchain and AI for example) as well as perhaps even applications beyond healthcare.

Before we provide an overview of the Company's platform it might be helpful to establish some of the problems they are trying to help solve. As the Industry Overview above addresses, supply chain accounts for the second highest cost center in hospitals today, behind only labor costs. Some believe supply chain is on its way to surpassing even labor. There are numerous reasons for the magnitude of supply chain spending some more obvious than others. On the face, its not hard to imagine why hospitals might have large supply chain outlays. One need only walk through the door and down the hallways to get a glimpse of the machines and devices required to operate a hospital. Carry that notion to the operating rooms and various other parts of the facility and it is not hard to grasp the costs. Moreover, what may be less obvious are some of the nuances to the supply chain that add to its magnitude. To help illustrate some of these factors, we are including some narrative from an industry publication penned by H-Source Founder and President Murray Walden. We think it provides a concise backdrop for some of the issues:

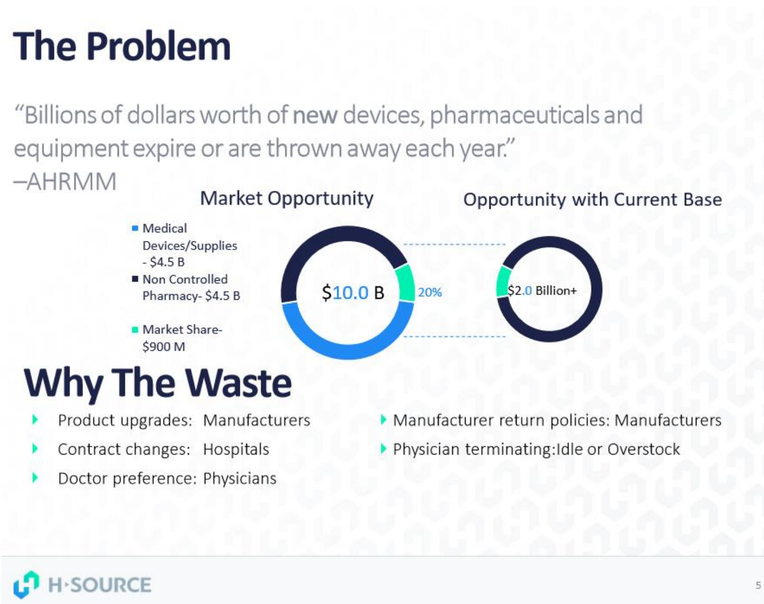
From: https://www.ecnmag.com/article/2019/01/rethinking-purchasing-possibilities-and-benefits).

> "*Supporting patient care requires supply chains to be flexible and adaptive. Consider how many patient types there are – men, women, babies, elderly, tall, short – all of which factor into the care the patient will need. Further, no two patients are going to have the same needs even if they arrive at your organization with the same diagnosis. Your providers, who are using the supplies that you provide, come from very different backgrounds and training and may be familiar with different supply solutions than you offer through your contract. The tools the provider is most comfortable working with are often going to achieve the best outcomes for the patient. Compound this with the number of new drugs and devices that enter the marketplace, and it becomes clear that it is impossible to have all of them available through your current contracting. These examples illustrate the clear need for a flexible system.*
>
> *…Smaller hospitals struggle with higher prices due to lower volume usage and access to multiple vendors to promote a competitive environment. For smaller hospitals and surgery centers, access to an aggregated source for products would provide significant opportunities to multiple vendors without the cost and expense of huge software capital output. Additionally, a new platform may provide some flexibility on minimum order requirements, which often create wasted products, reducing operating margins and ultimately jeopardizing survival.*
>
> *For larger hospitals who have a significant number of vendors, the ability to aggregate those vendors (on- or off-contract) into a single universal system would be a huge benefit. When a new product is approved for purchase at a hospital, the OEM and product(s) must be added as a vendor in the purchasing software system. Large hospitals typically work with purchase orders which can add a significant amount of work to gather each vendor's information for purchase, shipping, billing, and returns if needed. Additionally, many of the larger hospital groups and systems are often saddled with legacy software both for purchasing and inventory management. At some facilities, as many as seven different variations of the same category of software are used, so there is no visibility into existing sister hospitals' purchases or quantities until the data is manually configured for analysis. With hundreds of vendors and the constantly changing product needs for a large patient population, adding and subtracting items and OEMs in the current software system is time-consuming and inefficient. A single source would provide a much-improved resource for both processes and allow for standardization across the system. So why doesn't this solution exist? The answer to that is very complicated.*

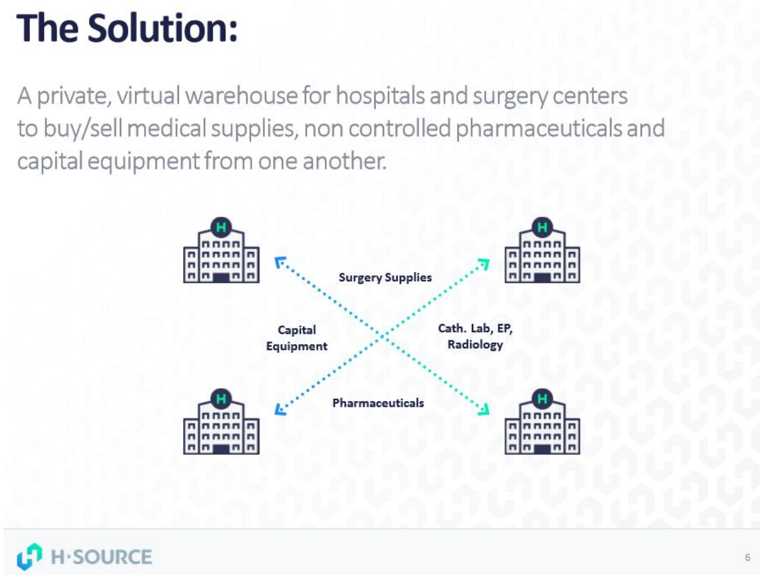
For many of the large legacy software systems used currently in hospitals, the effort and expense to develop technology like the one we have described is either cost prohibitive or the solutions developed are so complex to the end user, they become frustrated and revert to traditional solutions like spreadsheets. The reason these systems remain competitive in the marketplace and not supplanted by a startup is relatively simple. Most healthcare delivery systems operate on a fixed income, and technology investment has been very expensive with questionable ROI. This makes organizations change averse. To many, the security of knowing that a product has been around for a long time, despite its flaws, prevents looking for alternative solutions. This makes it very difficult for new players such as startups, to get access and gain a foothold to take market share from those legacy systems, and so billions of dollars in operating costs continue to be wasted.

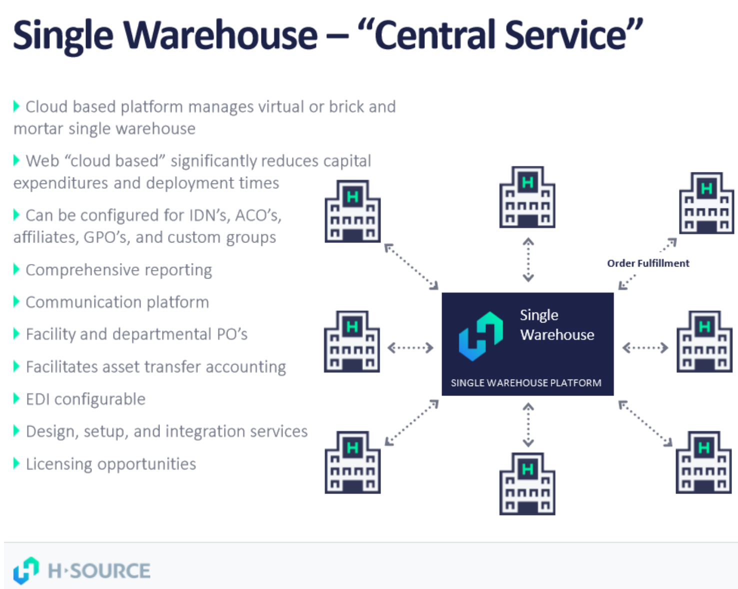
With that bit of background, recognize that the Company's platform is designed to provide users with access to their marketplace, but also with many other functions that address typical supply chain pain points that are created by any number of industry factors that include things like product outdates, physician preference changes, minimum order requirements, regulatory reporting, FDA product recalls, product tracking, manufacturing warranties and expiration dates, product codes that differ from one vendor to the next and just the sheer number of these types of items. The HSI platform aggregates many of these nuances and includes things like alerts that make users aware of those situations that may comprise or otherwise impact their supplies, pharmaceuticals and durable equipment inventories. That standardized approach provides users with dynamic and sometimes critical information they must either go create and maintain themselves or deal with the consequences of doing without.

Given the above backdrop, Company collateral uses the following illustrations to describe the platform and we have followed some of this with some additional color as well.

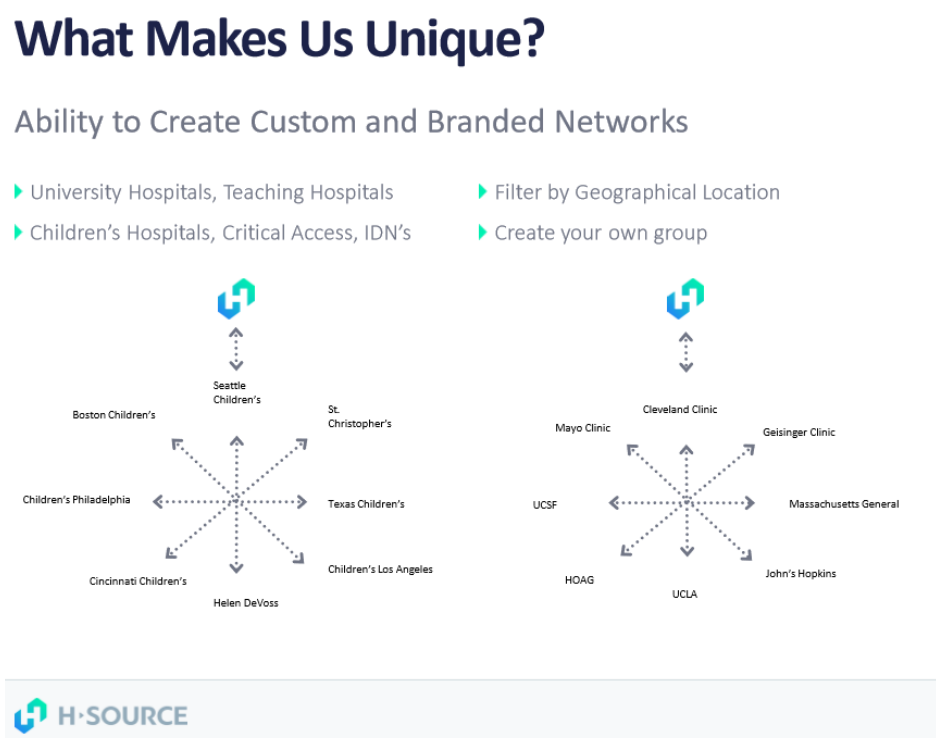


The above refences just a few of the variables that add to supply chain problems/costs. There are countless others and as the associated pie charts illustrate those collective costs are substantial. As the charts also depict, to this point H-Source has just begun to scratch the surface of its potential market. We believe they will continue to add hospitals and other relevant industry related constituents and in turn add to their market potential. As we suggested above, we believe that each new addition to the platform makes each existing piece more valuable, which would imply significant valuation leverage as they add users.

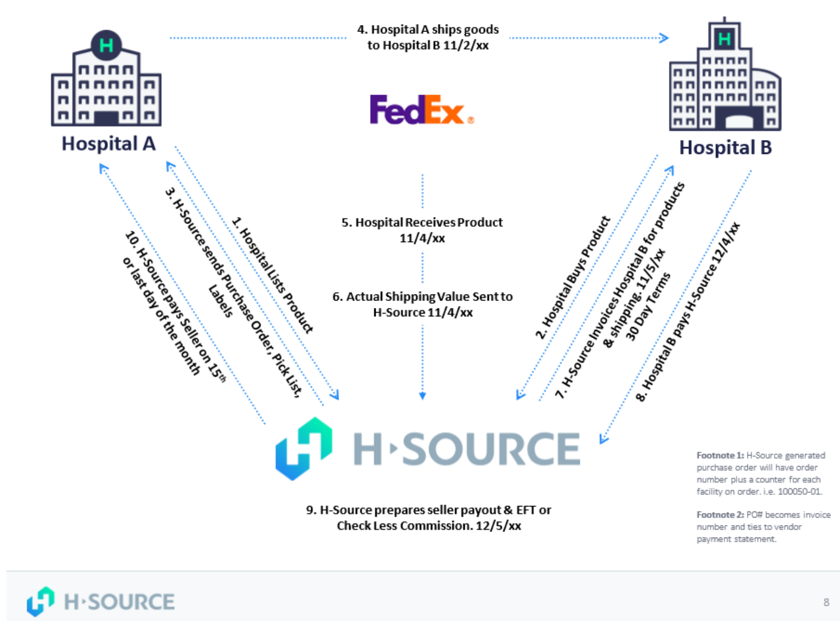




This probably goes without saying but connecting participants into the marketplace that hold their own inventories of items they re willing to transact, crates a collective "virtual warehouse". Moreover, as a cloud-based solution, the platform avoids the time, costs and integration issues that software "solutions" are sometimes notorious for. We think that is especially topical in the healthcare space because we believe that the industry has generally had a largely negative view of technologies such as the Electronic Medical Records ("EMR") requirements the federal government has mandated on the industry. Aside from the capital costs, we think many industry participants have viewed the overall value of EMR functionality as perhaps not worth the costs. There is no question the EMR implementation has been among other things cumbersome and we think that has impacted the way the industry views other technology "solutions". By the way, we believe that notion has likely complicated H-Source's own attempts to drive adoption, but we also think its cloud-based pedigree will has/ help to eliminate some of the objections they might otherwise encounter. Cloud based offering are clearly the cutting edge.



As we noted above hospitals, providers and patients come in a variety of combinations. That alone makes standardization across the industry and within its many parts difficult. As with the previous illustration, we would argue that cloud-based solutions provide the flexibility to address standardizing many moving parts, and that includes the H-Source platform's ability to create branded and/or custom networks within the network. That may allow for example, hospitals in the same group to limit transactions and/or communication within the group, or perhaps for users in the same geographic location to form groups to reduce transportation costs or otherwise take advantage of variables that might be impacted by geography. Again, we think value added functionality of this nature is what makes the "platform" much more valuable than just a marketplace.



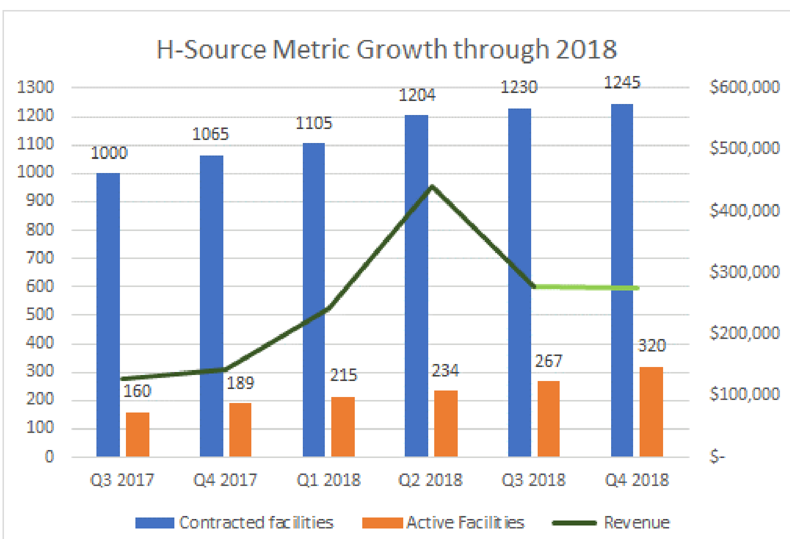
To further the platform advantages argument, the Company's solution also manages the accounting functions of the transactions in the system (invoicing, collection and payment), as well as the tracking and delivery of the products/supplies. It also manages regulatory issues like FDA recalls and DSCSA (pharmaceutical) compliance. Here again, we would argue that the "turn key" nature of platform makes it an attractive solution for an industry that has grown weary of "bolting on" another technology "solution" and trying to integrate it into systems that are already struggling with data integration.

The above is a very broad-stroke view of the Company's platform, but it includes considerably more granular capabilities that include (expanding) industry requirements and compliance around things like product tracking, and lot numbers, as well as more rudimentary things like model numbers, serial numbers manufacturer/warranty contact information and other items that become problematic if they have to be identified and are not right there in front of the user. Again, the Company has spent a great deal of time and money rationalizing this functionality to make its value apparent to both drive adoption and retain users. While we are not sure there is such thing as "thinking of everything", especially in an industry with as many moving parts as healthcare, we do think they have thought of a big portion of everything, and as such the platform architecture should allow for its continued evolution.

Operating Overview

As previously noted, while HSI was founded in 2014, it effectively transitioned to commercialization in 2017. As a result, it has spent the past two years trying to gain a foothold in the industry and create a beachhead from which to grow the business. Specifically, the Company generated nominal revenue in the first half of 2017, so from a practical standpoint, they have been "commercializing" the business since just the second half of 2017.

To reiterate, this is a "network" story in technology parlance, which means that growth in the network not only adds to the aggregate value of the network, but also enhances the value of the *existing* network. To put that another way, we think metrics that reflect (from the top down) growth in "contracted facilities" (those that sign on to the network), "active facilities" (those doing transactions on the network) and "inventory on the platform" (the value of items active users are listing to the marketplace) should provide us a reasonable basis to discern the success of the platform and ultimately the revenue it is able to sustain. Here is some data that reflect the growth of those metrics over recent periods:



Given the early stage of things, the above is not particularly telling one way or the other but it is going in the right direction. We would note, as we understand it, the spike in 2Q revenues were somewhat anomalous because of a large liquidation contribution in the quarter. The Company's Q3 filing also notes that they generally expect some (weaker) seasonality in calendar third quarters because most hospitals use a September 30 fiscal yearend, so budgets are typically exhausted. We feel like the second half of the calendar year(s) may ultimately prove to be the weaker of the two in general. We will monitor that notion as we gather additional data points and we have modeled some seasonality.

With that narrative in mind, we would note that the **Q4** number in the graph above is our estimate of Q4 revenue since they have not published that number as of this writing. Also, while we did not reflect the metric above, according to Company filings, inventory on the system has increased quarter-over-quarter since mid-2017, and at 09/30/18 stood at $2.2 million. We would add, our model is built around an assumption of HSI continuing to add contracted facilities, converting existing contracted facilities into active facilities, and then making additional assumptions regarding the average listings and ultimate sales by those active facilities. Just to reiterate, we believe that the expansion of active users will lead to higher inventory and higher average sales per active user because of the exponential nature of a larger network. Obviously, it is difficult to build some of these assumptions with little historical data to back test them against, but we feel confident that we will be able to tighten the assumptions as more data points become available.

In terms of the top line, the Company has laid out some initiatives aimed at growing the customer base, expanding the revenue *breadth* and ultimately expanding the collective sales of the enterprise. While we suspect that they likely have several such initiatives that they are not discussing, they have provided some insights into others. To be clear, we see HSI as in the very early innings of working towards growing the current platform business by adding hospitals and ultimately increasing the inventory on the system. We think that will drive revenue growth and we see that as the "core" business. However, as noted, the Company has provided some color on other revenue line items emerging as well.

First, they have discussed what they refer to as "enhanced services", which are essentially a "higher touch" version of the current platform services. That is, we think they have opportunities to engage hospitals that embrace the platform but would prefer that HSI play a larger role in its execution through their facility(s). To simplify the notion a bit, HSI can send people into these facilities to accelerate their use of the platform (think "outsourcing" the engagement of the platform). In exchange, HSI takes a larger piece of the transaction as we understand it, something closer to 40% rather than the typical 20%. We suspect this may be a preferred approach for many facilities because it will allow them to capitalize on the advantages of the platform with almost no effort on their own. Granted, this requires more manpower on the part of HSI, which is why this "enhanced services" piece will likely be limited to markets where the Company has been able to develop a reasonable concentration of customers that could in turn support the local personnel requirements need to deliver the service. Specifically, that might include areas like Colorado, where HSI is already embedded in about 70% of the hospitals. We believe that may be the case in the Company's home turf of Washington state, but will likely include some additional markets where they are beginning to achieve appropriate saturation. We think this is an elegant approach to growing the business and we suspect it will lead to increased relative activity in the facilities that utilize this approach, which to reiterate, will improve the entire network.

"Product Sales" is another line item the Company has discussed, and we suspect will be rolling out over the next few quarters. As we touched on above, hospital liquidations are becoming a growing part of the landscape. Those instances may provide the Company an opportunity to purchase inventory directly from the liquidation(s) and sell it through the platform. The approach may involve some risks that the current fee per transaction model does not but may also provide some marked opportunity for margin expansion. Given the unpredictable nature of these types of opportunities (ascertaining when and/or if one of these liquidations might occur) we can't model these events. Moreover, these types of revenues might require some sort of financial partner as well to finance the uptake of the liquidated inventory. We think this line could provide an occasional surprise revenue and margin bump to the numbers.

Aside from excess inventories, the Company has also addressed the possibility of including OEM and/or third party products on the platform. This one is interesting to us, but we think it also has some caveats that we won't belabor but will at least address. First, establishing a virtual marketplace where a host of enterprises can market/sell their products to others is a proven model. Amazon is of course the glaring example although there are certainly others as well. That approach has been especially attractive to sellers (largely businesses and/or OEMs) that may lack the ability to afford and/or scale broad marketing and distribution campaigns. Clearly there are examples of products that experienced wild success that absent the Amazon platform would likely never have done so. While selling OEM healthcare products in a virtual marketplace certainly has some unique caveats that for instance, selling a winter coat on Amazon may not, there are some similarities worth noting. In the end, since the advent of the internet, many industries have seen their legacy distribution chains disintermediated, disrupted and even dismantled because of the efficiencies and the transparencies provided by open virtual markets. In an industry rife with inefficiency, it is almost hard to believe that healthcare supply chains have not been dragged kicking and screaming into the same paradigm. Again, we think there are good reasons why healthcare supply chains have not been substantially impacted by technology, but there are also good reasons why they should be and as with other industries, the good reasons often boil down to better transparency. Increased transparency is not always good for everyone in an industry. Like the mandating of electronic medical records technology, we suspect healthcare is going to find itself in the cross hairs of additional technological change, either as a matter of economic necessity, government edict or both. We can see advantages for (some) OEMs as well as for their customers to utilize exchanges/platforms like H-Sources and we can envision some resistance as well.

The Company has delineated the potential for "software licensing" amongst some types of enterprises. We actually think this may be where the lion's share of the business model is ultimately headed. We could see the Company licensing the software to healthcare groups in leu of the current platform revenue, which is akin to a commission. We think the likely candidates to that sort of model would be larger hospital groups, who might create value by private labeling the platform and perhaps customizing it to their operations. Keep in mind, the Company has already demonstrated success with some large hospital groups in Colorado, California and others and we think they are working towards similar arrangements in other markets as well.

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.

Just to summarize the revenue side, while we expect them to continue to block and tackle their way towards additional contracted facilities and ultimately active facilities, we also think they have sown the seeds of more scalable approaches such as the software licensing and influencer collaborations we noted above. In short, we see the base hit efforts of the first as providing the demonstrable value proposition necessary to perhaps lead to the home run potential of the latter. That is, if they can hitch the wagon to some major consulting groups that can then run interference for them amongst their customers, we think the business could scale substantially. In addition, if some of the other revenue components take hold as we suspect, we could see some "lumpier" revenue results in particular quarters as larger "one-off" pieces of revenue are recognized. That could include things like licenses or perhaps large liquidations they are able to participate in. We won't attempt to model "lumpy" but we do expect to see some of it.

We submit, like the revenue side of things, our modeling of expenses for the next few quarters may be subject to considerable error because we don't have much in terms of historical data points to support our model assumptions. That said, here are some metrics we are using to cast our initial projections.

Under the current revenue mix (predominantly platform sales) we are modeling a 20% retention of the sale by H-Source and corresponding near/intermediate COGS between 45% - 50%. Those numbers are somewhat better than most of the quarterly results to this point, but we think those margin should prove achievable as operations ramp. In general, we think gross margins should benefit from higher revenue levels because there are some fixed components to the line item(s). In addition, looking over some of the potential new revenue streams we laid out above, certainly some of those could lead to better margins as well. For instance, software licenses generally carry margins in the 80%+ range. As a result, revenue mix will ultimately dictate gross margins, but our sense is that most of those potential (revenue mix) iterations would likely lead to much lower COGS rates rather than higher ones.

We think management has largely demonstrated a fair amount of fiscal frugality since inception. To management's credit they have proven quite resilient at procuring the necessary funding to keep the balls in the air through the critical pre-revenue development stage of the platform, but they have not had the luxury of excess growth capital to accelerate the business. We suspect they could have grown the enterprise more quickly with more capital (which by the way we are hoping continued traction in the business will help attract), but instead, they have had to engage a fair amount of bootstrapping to get to this point. Our experience with "bootstrappers" is that they tend to retain that mentality even after they get the working capital monkey off their backs. To translate, we don't expect to see extraordinary additions to SG&A as the business begins to ramp, and certainly not on the margin. Further, while we have delineated the potential for some higher touch types of sales that may require more manpower, this is still largely a technology story, which like most technology stories we would expect to experience a fair amount of operating leverage at scale. We have modeled that scenario however *we have* padded some of the expense line items over the next several quarters to support what we think may be a base necessary to support the next leg up in growth.

In terms of equity, we will start with the premise that the Company will require additional capital at least through the balance of 2019 and whatever form the investment(s) takes it will almost certainly include a dilutive equity component. Obviously, the magnitude of the capital requirements will be driven in part by the Company's path to eventual positive operating cash flow. To translate, the longer that takes, the more they will need. Further, we would expect them to try to raise additional capital for growth (beyond funding working capital deficiencies), especially if the business begins to accelerate and they can attract capital at more attractive valuations. We have modeled additional dilution in the context of our projected cash flow model, which incidentally reflect the Company getting to cash flow positive (quarterly) run rates in 1H 2020. Again, if our assessments therein prove aggressive, then they may require further dilution beyond our assumptions.

Management

***Mr. John T. Kupice** has been the Chief Executive Officer at H-Source Holdings Ltd. since August 31, 2015. Mr. Kupice helped the founder with H-Source, LLC prepare a business plan, raise capital and develop a new business model. Prior to joining H-Source, he served as Vice President of Development for TruCare Solutions, Inc. Previous to his work at TruCare, he served as the Chief Executive Officer for an Entertainment Technology Company. He served as the Chief Executive Officer at 1018763 B.C. Ltd.*

He is a visionary operations executive with over 25 years' experience in the Enterprise Resource Planning (ERP) and technology implementations in health care organizations. He has developed financial, regulatory and management reporting systems, financial modeling and budgeting, financial analysis and key performance indicators for several large healthcare and service organizations. He was responsible for program management on the McGraw Hill global implementation of all the Lawson ERP modules for finance and human resources. He was also the Quality Review Director for Ernst & Young, LLP in implementing Lawson for several large Catholic Health networks. He played a key role in the continued development of strategic reseller and supplier relationships, ensuring flexibility in response to an increasingly demanding marketplace, capital acquisition and merger and acquisition of main competitors. He also participated in various technology and venture capital initiatives in Minnesota, Florida and Alabama. He also spent 10 plus years with Ernst & Young, LLP, served as National Director of the Lawson practice providing program management and implementation assistance for clients in multiple industries including healthcare in North America. He helped open consulting practices in strategic markets for Ernst & Young, LLP, provided business migration services, continuous improvement methodologies, EXPRESS™ rapid process improvement, data warehousing, data visualization and management reporting systems. He serves as a Director at H-Source Holdings Ltd. since August 31, 2015.

During his tenure with Ernst & Young, he won the Lawson Partner of the Year award. He earned an B.A. in Accounting from the University of West Florida.

***Mr. Murray Walden** has been President at H-Source Holdings Ltd. since August 31, 2015. Mr. Walden has been a Director at H-Source Holdings Ltd since August 31,2015. Mr. Walden is a Co-Founder of H-Source Inc. and serves as its President. He has over 20 years of healthcare industry experience most of which was spent as a successful medical device sales representation and Manager for companies such as Medtronic and Applied Medical. Murray has significant experience in medical device development, marketing, implementation into clinical use for most major surgery specialties in hospitals. He has coordinated vendor and hospital teams on product evaluations and conversions based on GPO (Group Purchasing Organization) and IDN (Integrated Delivery Network) contracts including major medical centers in the western U.S. and has worked closely with all levels of hospital supply chain processes.*

Additionally, Murray has facilitated physician clinical education labs and a symposium for improving clinical outcomes and education for physicians. His unique industry background has provided significant value in crafting the H-Source platform. He continues to coordinate many of the daily operations at H-Source and focus on company initiatives and growth.

Murray attended Washington State University for two years and transferred to Iowa State University where he received a B.S degree and attended graduate school.

Risks and Caveats

As we noted in the Operating Section above, HSI has experienced operating losses since its inception and we expect that trend to continue through fiscal 2019. While we project the Company to transition to positive cash flow and earnings in fiscal 2020, that assessment could prove aggressive. We know the Company will require more capital to get through 2019, but it may require additional capital thereafter as well if the business fails to ramp as quickly as we have modeled. Additional capital will almost certainly be dilutive in one form or another and future capital could be as well. Perhaps more critically, their failure to access additional capital could substantially impair the Company and potentially impact its ability to continue as a going concern. In that regard, while the Company's specific financial condition and perceived opportunities will impact their ability to access capital, their access to capital could be mitigated by general financial market and/or economic conditions as well.

We have described the healthcare industry as large, complex, and dominated by some of the largest entities in the world; insurance companies, big pharma, large consulting groups, GPO's, the U.S. Government, every state in the nation and several others. We have also described it as a "zero-sum game" (at least on some levels) where the benefits of some these players come at the direct expense of others. On the face, that doesn't sound like a particularly favorable environment for a small undercapitalized technology company or any other *small* player in the space. Moreover, as we also alluded to, when it comes to embracing new technology, the healthcare industry is not exactly an early adopter, in fact we generally view them as more technology averse than many other industries. That aversion may very well be a function of regulatory and other unique characteristics, but regardless of the reasons, we think the industry's posture in that regard creates challenges for new technologies trying to enter the industry. Again, those challenges are particularly acute for small technology companies.

We can say from our own experiences covering small emerging companies that creating a better mousetrap, even (maybe especially) in the healthcare space does not guarantee that consumers will beat a path to the maker's door. That is true even in the event of long-awaited regulatory approvals of one type or another. We know of small companies with FDA approved devices that have struggled to gain traction amongst physicians. That said, we think the H-Source platform is clearly disruptive to some of the industry's legacy constituents that could create some roadblocks to customer adoption. For instance, we think there are some OEM's (including perhaps some pharma players) in the healthcare space that prefer less transparency to more and we draw that conclusion from examples of the wide disparities some providers pay for the same products/devices. Further, the healthcare industry has its share of "middlemen" (which may speak to some of its cost problems) who we suspect will not take kindly to being disintermediated. As an extension to that thought, while we think this approach is ripe for change, the fact is, the industry generally has responded to financial viability by trying to extract more revenue out of patients and/or payers with higher prices, more tests, "cutting edge" procedures etc. Cost control and mitigation has been an afterthought. H-Source is in the cost control/mitigation business.

Our research generally includes some risk narrative regarding the subject company's reliance on key players. Often those key players include founders or others who have been and remain quite important to the successful execution of the business. H-Source may be more dependent on key players (John Kupice and Murray Walden) than any research subject company we can recall. Losing either of these individuals would in our opinion, be a substantially negative and perhaps catastrophic event for H-Source.

H-Source shares are generally illiquid and thinly traded and we suspect that could continue to be the case for some time. Investors should consider that in the context of their own investment horizons and risk tolerances. Further, the Company currently files its financial statements on Canada's Sedar system and as such is regulated by Canadian authorities as opposed to being regulated by the Securities and Exchange Commission. That may change in the future, but it is the case today.

Lastly, we believe the Company's current capital structure is incongruent with the size of its operating base. That is another way of saying we believe, and we will advocate as such, that the Company should entertain a reverse stock split to better align the share count with the size of the business. While we respectfully disagree with the general premise, there are many investors who view reverse stock splits as a definitively negative event for a public company. While we have **no insights whatsoever** as to the Company's likelihood or even views regarding an event of that nature, those who see it as a significant risk should recognize that it is a possibility.

These are just a few of the more visible risks facing the Company. There are most certainly others both apparent and perhaps not so apparent.

Summary, Valuation and Conclusion

On several levels, H-Source is a classic entrepreneurial story. Founder Murray Walden spent 15 years working in various portions of the healthcare supply chain and in those endeavors gathered a wealth of knowledge about the weaknesses of the industry and in turn developed a vision around developing a platform that might help mitigate some of them. He then hired a consultant, now CEO John Kupice, to help him develop a business plan around the vision. John having spent years as a consultant in both IT and healthcare capacities happened to possess a skillset that we think was quite complimentary to Murray and his vision. Serendipitously, John apparently bought into the vision, because 5 years, $10 million and a public market entre later, here they are at the front end of commercializing the platform that addresses a big problem in a big industry. As we noted, their path has included a fair amount of bootstrapping, and we suspect if they would have known then what they know now, including the challenges along the way, they likely would have kept their day jobs. However, to their considerable credit, they have managed to keep the wheels on the bus and get the vision to commercialization, which they are just beginning to rationalize. In the meantime, the supply chain issues they are trying to address are becoming more acute as the industry, and perhaps more specifically hospitals, scramble to cuts costs in the face of shrinking margins and that reality is taking its toll as hospital bankruptcies continue to stack up.

The healthcare industry is complex, relatively unique and massive, and by most accounts it is getting bigger, gobbling larger shares of GDP with each passing year. The growth in healthcare spending has many drivers. An aging patient base, innovation supported by heavy R&D outlays, rising education costs for medical personnel (and by extension a shortage of the same), and many others. Unfortunately, those costs are rising in the face of what is generally a consumer (patient) with a relatively inelastic demand curve. That is, people who are injured or ill are not exactly in a good spot to quibble over price. As a result, the industry's answer to financial viability is to add. Add more patients, add more tests, add more procedures, add more pharmaceuticals and add more to the price of it all. That is not necessarily a critique, because that is what *many* industries do (if they can) when they are trying to keep up. When you are trying to keep up with demand, its often easier to add than it is to stop and figure out how/what to subtract. However, rising healthcare costs are becoming untenable, and subtraction is becoming a rallying cry for many of the industry's constituents who happen also to be the constituents of politicians. In our view, economics and politics are collectively demanding that the industry start trying to learn how to subtract. We believe that many in the industry will be forced to embrace new ideas, processes, technologies and various other changes and efficiencies if they plan to survive. As an extension, we think platforms like that of H-Source will be part of that evolution.

Recognize, we said platforms *like* H-Source. In our view, industry adoption of new technology solutions will require that they be low cost (capex), low learning curve, low maintenance solutions because they have had their fill of those that were not those things. We think EMR implementations are a good example of that. While we believe H-Source's solution fits that bill, we are also *not* suggesting that H-Source has something wired here. We think they have come a long way since inception, but they still have plenty of blocking and tackling left to do and they require some help (capital) to do it. Further, they remain a (very) little fish in a (very) large ocean. But, on some levels *that* is exactly the point and/or the opportunity.

Currently, H-Source carries a market cap of around $7 million. That is small even by microcap standards. That also happens to be less than the capital (as measured by the accumulated deficit) that has been invested into the Company, which suggests that the market is not placing much value on the technology and business progress we argue they have achieved in terms of getting the platform deployed, attracting meaningful customers/relationships and generating what appears to be growing financial metrics. That considered, our thesis here is quite simple: we think the Company has developed a solution to a small portion of a big problem. We are certainly not suggesting the H-Source is on its way to becoming the eBay or the Amazon of the hospital supply chain. However, *we are* suggesting this. We are modeling what we think is a reasonable operating projection/path for the Company provided they can access appropriate capital and continue to execute on building the network. We think they can do each of those things in part because on the capital side, the requirements are relatively modest, and on the operating side many of the necessary pieces are already in place. By the way, we think the second of these issues should help with the execution of the first. If they can in fact execute on these things and achieve results somewhere in line with our estimates, we think the intrinsic value of the Company could increase several times from the current market capitalization. Again, part of that dynamic includes the fact that we are starting from a relatively nominal place.

Our valuation approach here is consistent with our typical valuation approach, which is to attempt to forecast cashflow out into the future and discount those results back at rates that include typical DCF proxies as well as additional steep discounts for the risks associated with the probabilities that the actual cash flows may differ in either in magnitude or timing from our estimates. We apply both a perpetual cash flow and a terminal value approach to the model to compare and "check" or resulting conclusions.

More specifically, we are modeling 2019 revenues of $2.6 million (versus 2018 of $1.2 million) and we are basing that largely on contributions from the "core business" (platform sales, enhanced services revenue, and auction related sales). For 2020 we are looking at revenues doubling again (or thereabouts) as some of the other (higher margin) revenue opportunities kick in. We see the Company transitioning to positive cash flow and profitability in early 2020 and build both from there out. To reiterate, we think they have a relatively open-ended opportunity here. That is, as we think we have sufficiently delineated above, there are many problems in the healthcare supply chain that need fixing, and HSI addresses a portion of that. While we are modeling HSI growing into a $25 million to $50 million company (well into the future), we firmly believe that there are reasonable assumptions that would get us to much higher numbers in a much shorter period than we are assuming. Obviously, those types of scenarios would speak to valuations well beyond our current targets. In the meantime, we submit, the visibility here is not particularly good, so we are going to stick with some estimates that we think we can defend given what the company has accomplished today in terms of relationships (contracted hospitals and others) and identifiable revenue opportunities (active hospitals). Perhaps a bit contrary to our visibility comment, keep in mind, the Company has already established relationships with (among others) major hospital associations in California, Colorado, Texas and Washington, and we believe there are others coming. That said, as we gather more data points and visibility improves, we should be able to refine the model. Recognize, we fully expect some misses on the results until we have more information regarding the trend of the business. That said, despite the lack of visibility, we believe the sum of the efforts here and the potential that rests on the groundwork done to this point provide a reasonable path to much higher valuations from current prices. We think that is especially true given the state of the industry they are serving and the solution they have created to serve it. To translate; we like the risk/reward posture of the deal. We submit, there are still several things they must get right for us to be accurate, but we think they have a reasonable shot at the brass ring.

We are initiating our coverage of H-Source with an allocation of 4 and a 12-24 month price target of $.19 per share. We will revisit each of these as visibility improves.

Projected Operating Model

H-Source Holdings Ltd.											
Projected Operating Model											
By Trickle Research LLC											
	(actual)	(actual)	(actual)	(estimate)	(estimate)	(estimate)	(estimate)	(estimate)	(estimate)	(estimate)	(estimate)
	3/31/2018	6/30/2018	9/30/2018	12/31/18	Fiscal 2018	3/31/19	6/30/19	9/30/19	12/31/19	Fiscal 2019	Fiscal 2020
Revenues	$ 241,361	$ 440,900	$ 277,322	$ 256,000	$ 1,215,583	$ 327,520	$ 710,666	$ 754,099	$ 814,605	$ 2,606,889	$ 5,114,091
Cost of Sales	$ 187,680	$ 256,502	$ 157,639	$ 141,000	$ 742,821	$ 175,440	$ 275,372	$ 261,874	$ 301,426	$ 1,014,112	$ 1,694,170
Commission Revenue (net)	$ 53,097	$ 30,212	$ (3,794)	$ -	$ 79,515	$ -	$ -	$ -	$ -	$ -	$ -
Gross Profit	$ 106,778	$ 214,610	$ 115,889	$ 115,000	$ 552,277	$ 152,080	$ 435,294	$ 492,225	$ 513,179	$ 1,592,778	$ 3,419,921
Expenses:											
Advertising and Promotion	$ 25,457	$ 12,843	$ 47,782	$ 37,800	$ 123,882	$ 41,376	$ 60,533	$ 62,705	$ 65,730	$ 230,344	$ 355,705
Amortization	$ 48,854	$ 49,005	$ 49,076	$ 50,000	$ 196,935	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 200,000	$ 200,000
Consulting	$ 75,158	$ 50,716	$ 75,142	$ 75,000	$ 276,016	$ 75,000	$ 75,000	$ 75,000	$ 75,000	$ 300,000	$ 300,000
General and Administrative	$ 269,614	$ 206,194	$ 219,403	$ 107,680	$ 802,891	$ 109,826	$ 121,320	$ 122,623	$ 124,438	$ 478,207	$ 553,423
Professional Fees	$ 43,446	$ 50,055	$ 56,178	$ 60,000	$ 209,679	$ 60,000	$ 60,000	$ 60,000	$ 60,000	$ 240,000	$ 240,000
Salaries and Benefits	$ 271,446	$ 538,213	$ 374,714	$ 305,120	$ 1,489,493	$ 306,550	$ 314,213	$ 315,082	$ 316,292	$ 1,252,138	$ 1,302,282
Shared Based Compensation			$ 162,053	$ 50,000	$ 212,053	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 200,000	$ -
Other Expenses				$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Operadting Expenses	$ 733,975	$ 907,026	$ 984,348	$ 685,600	$ 3,310,949	$ 692,752	$ 731,067	$ 735,410	$ 741,461	$ 2,900,689	$ 2,951,409
Operting Profit (loss)	$ (627,197)	$ (692,416)	$ (868,459)	$ (570,600)	$ (2,758,672)	$ (540,672)	$ (295,773)	$ (243,185)	$ (228,282)	$ (1,307,911)	$ 468,512
Other Income (Expense):											
Interest Income	$ 1,463	$ 680	$ 620	$ (773)	$ 1,990	$ (2,426)	$ 2,465	$ 1,928	$ 1,447	$ 3,414	$ 11,141
Interest and Financing Expense	$ 419	$ 13,265	$ 12,264	$ -	$ 25,948	$ -	$ -	$ -	$ -	$ -	$ -
Other											
Total Other Income (Expense)	$ 1,044	$ (12,585)	$ (11,644)	$ (773)	$ (23,958)	$ (2,426)	$ 2,465	$ 1,928	$ 1,447	$ 3,414	$ 11,141
Net Income (Loss) for the Period	$ (626,153)	$ (705,001)	$ (880,103)	$ (571,373)	$ (2,782,630)	$ (543,098)	$ (293,308)	$ (241,257)	$ (226,835)	$ (1,304,497)	$ 479,653
Other Conprehensive Income (Loss):											
Foreign Exchange Gain (Loss)	$ 59,407	$ (4,612)	$ 3,657	$ -	$ 58,452	$ -	$ -	$ -	$ -	$ -	$ -
Other											
Net Comprehensive Gain (Loss) for the Period	$ (566,746)	$ (709,613)	$ (876,446)	$ (571,373)	$ (2,724,178)	$ (543,098)	$ (293,308)	$ (241,257)	$ (226,835)	$ (1,304,497)	$ 479,653
Weighted Average Basic Earnings per Share	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.03)	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.01)	$ 0.00
Weighted Average Diluted Earnings per Share	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.03)	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.01)	$ 0.00
Weighted Average Basic Shares Outstanding	85,166,568	105,924,705	112,680,755	113,180,755	104,238,196	114,014,088	144,602,324	145,056,869	145,427,239	137,275,130	145,427,239
Weighted Average Diluted Shares Outstanding	85,166,568	105,924,705	112,680,755	113,180,755	104,238,196	114,014,088	144,602,324	145,056,869	145,427,239	137,275,130	146,965,781

General Disclaimer:

Portions of this publication excerpted from company filings or other sources are noted in *italics* and referenced throughout the report.

Rating System Overview:

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

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

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

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

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

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