Trickle Research

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

Coverage Termination

H·SOURCE

H-Source Holdings Ltd.

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

www.h-source.com

Report Date: 09/17/21

12- 24 month Price Target: $.19

Allocation: 4

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

Closing Stock Price at Coverage Termination (Closing Px: 09/16/21): $.10

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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 on April 9, 2019. At the time the stock was trading at $.055 and we placed a 12-24 month price target on the shares of $.19. Our enthusiasm for the Company was largely based on the notion that we believed they had developed a platform that could help hospitals manage their supply chain/inventories. To reiterate, aside from labor, supplies and equipment have historically represented the largest expense line item of most hospitals in the U.S. H-Source's system was created to be (among other functionality) a secondary marketplace where hospitals could buy/sell overstocked items between one another. We thought the idea and the platform were brilliant and we still do.

For several reasons, the Company had a more difficult time onboarding hospitals than we/they anticipated. Clearly the value of the platform is enhanced by the number of hospitals that use it. One of those reasons was access to capital, which is a risk we clearly recognized going in, but like most companies across the country, the pandemic exacted its toll as well. Certainly, the pandemic created obvious challenges for hospitals as their focus became devoted almost entirely to addressing Covid19 patients. On the other hand, ironically, many of the procurement and associated logistic issues that hospitals have encountered are/were issues the H-Source platform were designed to mitigate. Unfortunately, as we noted, the Company's presence across the hospital system(s) was not broad enough to make a difference.

In addition to the above (or perhaps because of it) the Company has also had a difficult time filing its financials on time. As an extension, there have been multiple instances where the TSX Venture Exchange has issued Cease Trade Orders because of the company's failure to file. As of this writing, the Company is currently under one of those Cease Trade Orders. The Company's *most current* financial filing is from 3Q-F20 (September 30, 2020). On the face, it is problematic for us to continue *analyzing* the stock when the Company does not file its financials. That brings us to another factor that we have found disconcerting.

Since our coverage inception, the Company has provided color on several promising opportunities they were/are pursuing, and to date largely none of those opportunities have come to fruition. we submit, the past 12-18 months have not been an ideal environment for any company, and that may be especially true for a small undercapitalized medical software company aimed at the hospital space. To be clear, while they have not performed well, it has been rough out there, but the fact remains, as near as we can tell, to this point they have been unable to close the loop on any of the initiatives they have disclosed and discussed. Recognize, some of those initiatives are ongoing and our hope is that they will in fact be able to close one or more of those, which would ostensibly allow them to get the financials current and the business on track. For instance, on That brings us to another point.

As we noted, we initiated the coverage in April 2019 with the stock at $.055 and at the time we place a $.19 price target on the shares. As the chart below illustrates, the stock spent the next 18 months trading down presumably because of the lack of traction described above, although a good portion of that time frame correlates with the pandemic as well. However, as the chart also illustrates, in late 2020, the shares substantially breached our price target on multiple occasions, which in retrospect should have elicited either an allocation downgrade, a target increase, or some combination of each. However, that is the interesting thing. despite the ongoing fundamental struggles we have addressed above, the stock has been substantially stronger since late 2020, and today remains, depending on the trading day, approximately 2X our original initiation price. **We have no coherent explanation for that**. Despite not filing financials for what is approaching nearly 1 year of financial results, having the stock halted in Canada and no measurable progress we can discern from the filings/disclosures, the stock continues to trade at multiples of where it was trading 1 year ago. Clearly, someone in the street either knows or thinks they know somethings we do not.

We submit, our comments above are a bit pejorative. To reiterate, we recognize the environment has not been ideal on some levels, however, on other levels, the pandemic has exposed some of the very problems we believed (and still do for that matter) the H-Source platform could help solve. From that perspective, presumably, the pandemic has been both destructive and constructive for H-Source, and perhaps the recognition and/or expectation of the latter is what has helped the stock through much of 2021.

To be clear, we are still pulling for H-Source and we continue to believe that they have developed a platform that could add value to the hospital supply chain. Moreover, we remain intrigued (baffled) by the resilience of the stock in the face of considerable headwinds, which again makes us wonder if someone knows something we do not, which is entirely possible. While we recognize some of you own the shares and would probably prefer that we continue to muddle through the coverage, it is difficult and probably inappropriate for us to maintain the coverage in the face of their inability to file current financials. That said, we are terminating the coverage of H-Source with the promise that we will revisit the story for a potential re-initiation, if they can get the financials current and provide some clarity on the direction of the business.

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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.