



H-SOURCE HOLDINGS LTD.

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)**

FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

(EXPRESSED IN US DOLLARS)

H-SOURCE HOLDINGS LTD.
Condensed Consolidated Interim Statements of Financial Position
(Expressed in US Dollars)

	Notes	As At March 31, 2020 \$	As At December 31, 2019 \$
ASSETS			
Current Assets			
Cash		38,780	9,881
Prepaid expenses		88,688	118,795
Accounts receivable		152,038	75,631
Inventory		132,243	2,674
Total Current Assets		411,749	206,981
Patents	6	91,243	94,494
Software development costs	6	680,560	646,060
TOTAL ASSETS		1,183,552	947,535
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	7	1,214,365	1,042,342
Interest and profit sharing payable	8, 13	167,003	118,762
Due to related parties	13	104,967	48,020
Loans payable	8, 13	546,990	200,657
Convertible debentures	9	2,215,701	1,871,154
Derivative liabilities	9, 10	375,459	595,156
TOTAL LIABILITIES		4,624,485	3,876,091
SHAREHOLDERS' DEFICIENCY			
Common shares	11	10,024,162	10,024,162
Common shares to be issued	11	51,912	51,912
Reserves		852,256	848,305
Deficit		(14,381,140)	(13,854,098)
Accumulative other comprehensive income		11,877	1,163
Total Shareholders' Deficiency		(3,440,933)	(2,928,556)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY		1,183,552	947,535

Nature and continuance of operations (Note 2)
Subsequent events (Note 14)

On behalf of the board:

“John Kupice” Director
John Kupice

“Murray Walden” Director
Murray Walden

The accompanying notes are an integral part of these consolidated financial statements.

H-SOURCE HOLDINGS LTD.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss (Expressed in US Dollars)

		Three Months Ended	
	Notes	March 31, 2020	March 31, 2019
		\$	\$
Revenue		379,918	253,268
Cost of Sales		(334,188)	(192,117)
		45,730	61,151
Commission revenue (net)		2,883	8,236
		48,613	69,387
Expenses			
Advertising and promotion		25,821	43,193
Amortization	6	3,251	49,384
Consulting fees		16,244	20,309
General and administration expenses	5	95,879	186,035
Professional fees		20,182	52,072
Salaries and benefits	13	235,617	300,905
Share-based payments	11, 13	3,951	7,997
		(400,945)	(659,895)
Income Before Other Income (Expenses)		(352,332)	(590,508)
Interest and other finance costs, net	8, 9	(394,407)	(22,884)
Fair value gain on derivative liabilities	10	219,697	-
Net Loss for the Period		(527,042)	(613,392)
Other Comprehensive Income (Loss)			
Foreign exchange gain (loss)		10,714	(742)
Comprehensive Loss for the Period		(516,328)	(614,134)
Basic and Diluted Loss Per Share		(0.00)	(0.01)
Weighted Average Number of Common Shares Outstanding		117,640,277	117,640,277

The accompanying notes are an integral part of these consolidated financial statements.

H-SOURCE HOLDINGS LTD.

Condensed Consolidated Interim Statements of Changes in Shareholders' Deficiency (Expressed in US Dollars)

	Common Shares		Reserves	Common Shares to be Issued	Accumulative Other Comprehensive Income (Loss)	Accumulated Deficit	Shareholders' Deficiency
	Number of Shares	\$					
Balance – December 31, 2018	117,640,277	10,024,162	774,137	51,912	34,281	(10,920,074)	(35,582)
Issuance of stock options (Note 11)	-	-	5,487	-	-	-	5,487
Issuance of restricted share units (Note 11)	-	-	2,510	-	-	-	2,510
Net loss and comprehensive loss for the year	-	-	-	-	(742)	(613,392)	(614,134)
Balance – March 31, 2019	117,640,277	10,024,162	782,134	51,912	33,539	(11,533,466)	(641,719)
Balance – December 31, 2019	117,640,277	10,024,162	848,305	51,912	1,163	(13,854,098)	(2,928,556)
Issuance of stock options (Note 11)	-	-	1,903	-	-	-	1,903
Issuance of restricted share units (Note 11)	-	-	2,048	-	-	-	2,048
Net loss and comprehensive loss for the year	-	-	-	-	10,714	(527,042)	(516,328)
Balance – March 31, 2020	117,640,277	10,024,162	852,256	51,912	11,877	(14,381,140)	(3,440,933)

The accompanying notes are an integral part of these consolidated financial statements.

H-SOURCE HOLDINGS LTD.
Condensed Consolidated Interim Statements of Cash Flows
(Expressed in US Dollars)

	Three Months Ended	
	March 31, 2020	March 31, 2019
	\$	\$
Cash provided by (used in):		
Operating activities		
Net loss for the year	(527,042)	(613,392)
Items not involving cash:		
Amortization	3,251	49,384
Accretion of convertible debentures	344,547	-
Fair value gain on derivative liabilities	(219,697)	-
Share based payments	3,951	7,997
Changes in non-cash operating working capital:		
Accounts receivable	(78,557)	15,022
Prepaid expenses	26,415	74,061
Inventory	(129,569)	12,271
Accounts payable and accrued liabilities	190,923	266,665
Interest and profit sharing payable	46,519	21,233
Due to related parties	-	10,000
Net cash used in operating activities	(339,259)	(156,759)
Cash flows from investing activities:		
Short-term investments	-	4,100
Software development	(34,500)	-
Net cash provided by (used in) investing activities	(34,500)	4,100
Cash flows from financing activities:		
Proceeds from loans payable	403,280	135,000
Net cash provided by financing activities	403,280	135,000
Effect of foreign exchange	(622)	(16)
Change in cash	28,899	(17,675)
Cash, beginning	9,881	72,864
Cash, ending	38,780	55,189

Supplemental Cash Flow Information (Note 12)

The accompanying notes are an integral part of these consolidated financial statements.

H-SOURCE HOLDINGS LTD.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2020 and 2019

(Expressed in US Dollars)

NOTE 1 - NATURE OF OPERATIONS

H-Source Holdings Ltd. (the “Company”), was incorporated on November 11, 2014 under the laws of British Columbia, Canada. Its head office is located at 2250-1055 W. Hastings St., Vancouver, BC, V6E 2E9, Canada and registered office is located at 1500-1055 W. Georgia St., Vancouver, BC, V6E 4N7, Canada. The Company is listed on the TSX Venture Exchange under the symbol “HSI” and on the OTCQB in the USA under the symbol “HSCHF”.

The Company has developed a digital platform and network to operate in the healthcare industry and offers a private, hospital-to-hospital marketplace that allows members to buy/sell/transfer supplies and capital equipment with each other. Members can conduct secure transactions within Integrated Delivery Networks (IDNs), Group Purchasing Organizations (GPOs), the complete HSI network, or customize their own group of hospitals using the Company’s built-in filters. This network is designed specifically to reduce health care costs and medical products waste.

These consolidated financial statements of the Company were approved and authorized for issue by the Board of Directors on August 14, 2020.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance with International Financial Reporting Standards

The condensed consolidated interim financial statements of the Company comply with International Financial Reporting Standards (“IFRS”) and International Accounting Standards (“IAS”) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”) on a basis consistent with the significant accounting policies disclosed in note 2 of the most recent annual financial statements as at and for the year ended December 31, 2019 as filed on SEDAR at www.sedar.com. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

Basis of presentation and going concern

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as financial instruments at fair value through profit or loss that have been measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting and are presented in United States dollars unless otherwise noted.

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all of the periods presented, unless otherwise stated.

These consolidated financial statements include the accounts of H-Source Holdings Ltd., H-Source, Inc. (“HSI”) a Washington State corporation, H-Source Distribution-US, Inc., a Washington State corporation, and HSI Sales, LLC, a Washington State limited liability company. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The subsidiary is fully consolidated from the date on which control is acquired by the Company. Inter-company transactions and balances are eliminated upon consolidation. The subsidiary is de-consolidated from the date that control by the Company ceases. Inter-company balances and transactions and any unrealized income and expenses arising from inter-company transactions are eliminated in preparing the consolidated financial statements.

The Company started realizing revenue during the year ended December 31, 2017 and has experienced net losses since inception. As of March 31, 2020 and December 31, 2019, the Company had an accumulated deficit of \$14,381,140 and \$13,854,098, respectively. For the periods ended March 31, 2020 and 2019, the Company had cash outflows from cash used in operating activities of \$339,259 and \$156,759, respectively. The Company expects to continue to incur net losses and have significant cash outflows for the foreseeable future. The Company is subject to a number of risks similar to those of other pre-commercial stage companies, including its dependence on key individuals, generation of revenues, dependence on outside sources of capital, successful protection of intellectual property, competition with larger, better-capitalized companies, and successful completion of the Company’s development programs. Ultimately, the attainment of profitable operations is dependent on future events, including obtaining adequate financing to fulfill its development activities and generating a level of revenues adequate to support the Company’s cost structure.

H-SOURCE HOLDINGS LTD.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2020 and 2019

(Expressed in US Dollars)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CON'T

The Company requires additional cash resources to support infrastructure, network infrastructure, and sales and marketing efforts of its software platform. These conditions, among others, raise significant doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. This basis of accounting contemplates the recovery of the Company's assets and the satisfaction of liabilities in the normal course of business. A successful transition to attaining profitable operations is dependent upon achieving a level of positive cash flows adequate to support the Company's cost structure.

The future viability of the Company is dependent on its ability to generate cash from operating activities, and to raise additional capital to finance its operations. The Company's failure to raise capital as and when needed could have a negative impact on its financial condition and ability to pursue its business strategies.

The condensed consolidated interim financial statements do not include any adjustments due to this uncertainty relating to the recoverability and classification of recorded asset amounts and classification of liabilities.

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. The total impact on the Company is not currently determinable but management continues to monitor the situation. COVID-19 affected the healthcare sector by stretching healthcare resources in hotspots for the pandemic outbreak. One of the first decisions made by government and hospital leaders was to shutdown elective surgeries. This effectively reduced one of the biggest revenue sources for hospitals. Their cash flow suffered and their ability to pay and buy or trade products for elective surgeries decreased significantly. This had an immediate and profound impact on the Company's revenues and cash collections. The Company has built a healthcare asset management platform which has allowed the Company to pivot to Personal Protective Equipment ("PPE") tracking and sales. The Company is finalizing strategic partnerships to service this marketplace. The movement into the PPE market segment will increase the Company's revenue stream and provide access to capital in fiscal 2020.

Foreign currency translation

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The functional currency of H-Source Holdings Ltd. is the Canadian dollar ("CDN\$") and of HSI, H-Source Distribution-US Inc., and HSI Sales LLC is the United States dollar ("USD\$"). The reporting currency of the Company is the United States dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, "The Effects of Changes in Foreign Exchange Rates".

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in the statement of comprehensive loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Patents

Patents are capitalized if it is probable that the future economic benefits that are attributable to the patent will flow to the Company and the cost of the patent can be measured reliably. Patents have finite lives and are measured at cost less accumulated amortization and accumulated impairment losses over their useful lives. Patents are assessed for impairment whenever there is an indication that they may be impaired. If any such indication exists, the recoverable amount is estimated and an impairment loss is recognized whenever the carrying amount exceed their recoverable amount. Amortization of patents commenced in fiscal year 2017 using the straight-line method over a 10-year period and were in service as at March 31, 2020.

H-SOURCE HOLDINGS LTD.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2020 and 2019

(Expressed in US Dollars)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONT

Deferred software development costs

Research costs are expensed as incurred. Costs related to the development of software are expensed as incurred unless such costs meet the criteria for deferral and amortization under IFRS. The criteria include identifiable costs attributable to a clearly defined product, the establishment of technical feasibility, identification of a market for the software, the Company's intent to market the software, and the existence of adequate resources to complete the project. Directly attributable costs that are capitalized as part of the software application include internal costs. Software development costs were amortized over an estimated useful life of three years, commencing in fiscal year 2017 when commercial sales of products commenced. During fiscal 2019, the Company developed a new software platform which is expected to have a useful life of three years and will begin being amortized once the asset has been put into use. Capitalized software development is evaluated in each reporting period to determine whether it continues to meet the criteria for continued deferral and amortization.

Foreign currency translation

Transactions denominated in foreign currencies are converted to their functional currencies at exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to their functional currencies at the exchange rate prevailing at the reporting date. Non-monetary assets and liabilities are translated at historical exchange rates prevailing at each transaction date. Revenues and expenses are translated at exchange rates prevailing on the date of transactions. All exchange gains and losses are included in determination of earnings. Financial statements of each entity is prepared under their functional currencies are translated into United States dollars for consolidation purposes as follows: assets and liabilities are translated using the exchange rate prevailing at the reporting date; expenses are translated using the average rates of exchange for the period. Gains and losses resulting from translation adjustments are recorded as other comprehensive income (loss).

Inventory

Inventory is stated at the lower of cost and net realizable value. Cost is determined on an average cost basis. Inventory costs include the purchase price and other costs directly related to the acquisition of materials, and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less selling expenses.

Reclassification

Certain amounts in the prior period financial statements have been reclassified to conform to the presentation of the current period financial statements. These reclassifications had no effect on the previously reported net loss or net and comprehensive loss for the period.

Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company. Diluted loss per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. Diluted loss per share is not presented as there are no dilutive securities outstanding.

Impairment of assets

The carrying amount of long-lived assets, specifically intangible assets, is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Long-lived assets under construction are evaluated for impairment annually. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. There were no impairments recognized in the three months ended March 31, 2020 and March 31, 2019.

H-SOURCE HOLDINGS LTD.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2020 and 2019

(Expressed in US Dollars)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CON'T

Impairment of assets (con't)

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Any reversal of impairment cannot increase the carrying value of the asset to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Share capital

Common shares issued for non-cash consideration are recorded at the fair value of the shares at the time, or if the fair value of shares is not measurable, then the fair value of the services provided.

Share-based payment transactions

The stock option and restricted stock unit plans allow Company directors, officers, employees and consultants to acquire shares of the Company. The fair value of share purchase options or restricted stock units granted are recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. The fair value is measured at grant date and the share-based compensation is expensed based on graded vesting. When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value of the share purchase options granted is measured using the Black-Scholes Option Pricing Model taking into account the terms and conditions upon which the share purchase options were granted. Forfeiture rates are estimated in advance and are used in the estimate of the share-based expense for the financial statement period. Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or the services.

Warrants

Proceeds from issuances by the Company of units consisting of shares and warrants are allocated based on the residual method, whereby the carrying amount of the warrants is determined based on any difference between gross proceeds and the estimated fair market value of the shares. If the proceeds from the offering are less than or equal to the estimated fair market value of shares issued, a nil carrying amount is assigned to the warrants.

Financial instruments

Financial instruments are recognized on the consolidated statement of financial position when the Company becomes a party to the contractual provisions of a financial instrument. The Company classifies its financial instruments in the following categories: financial assets at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of its financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

(i) Classification

The Company's financial assets and liabilities are generally classified as follows:

<u>Financial assets/liabilities</u>	<u>Classification</u>
Cash	FVTPL
Short-term investments	FVTPL
Accounts receivable	Amortized cost
Accounts and loans payable	Amortized cost
Due to related parties	Amortized cost
Convertible debentures	Amortized cost
Derivative liabilities	FVTPL

H-SOURCE HOLDINGS LTD.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2020 and 2019

(Expressed in US Dollars)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CON'T

Financial instruments (con't)

(ii) Measurement

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of loss in the period in which they arise.

Debt investments at FVTOCI are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income ("OCI"). On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVTOCI are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

(iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of loss and comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(iv) Derecognition

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and/or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on derecognition are generally recognized in profit or loss.

Revenue

Revenue is recognized based on a five-step model:

1. Identify the contract(s) with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when (or as) the performance obligations are satisfied.

H-SOURCE HOLDINGS LTD.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2020 and 2019

(Expressed in US Dollars)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CON'T

Revenue (con't)

The Company evaluates whether it is appropriate to record the gross amount of product sales and related costs or the net amount earned as commissions. When the Company is primarily obligated in a transaction, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, revenue is recorded at the gross sale price at the time of shipping. The Company records the net amounts as commissions earned if it is not primarily obligated and does not have latitude in establishing prices. Such amounts earned are determined using a percentage of seller revenues.

Revenue from product sales are recognized when the risks and rewards of ownership pass to the buyer, collection is reasonably assured and the price is reasonably determinable. Product sales and related shipping revenues are generally recorded when the products are shipped and title passes to customers.

Service sales represent commissions earned and are recognized when service has been rendered. Once products are delivered to the Company's customers, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales order or the acceptance provisions have lapsed.

Provisions

The Company recognizes provisions for liabilities of uncertain timing or amount including those for legal disputes. If applicable, the provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date, discounted at a pre-tax rate reflecting current market assessments of the time value of money and risks specific to the liability. There were no provisions recognized as of March 31, 2020 and March 31, 2019.

Changes in accounting policies including initial adoption

The following accounting policies were adopted during the year ended December 31, 2019:

IFRS 16 – Leases

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. As the Company does not have any leases, this standard did not have any impact on the consolidated financial statements.

IFRIC 23 – Uncertainty over Income Tax Treatments

New standard to clarify the accounting for uncertainties in income taxes. The interpretation provides guidance and clarifies the application of the recognition and measurement criteria in IAS 12 "Income Taxes" when there is uncertainty related to income tax treatments. The interpretation is effective for annual periods beginning on or after January 1, 2019. There was no impact on the Company's consolidated financial statements from the adoption of IFRIC 23.

The Company is not aware of any upcoming standards or policy changes expected to have a material impact on its financial statements.

NOTE 3 – CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and assumptions

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Estimates and assumptions are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ significantly from these estimates.

H-SOURCE HOLDINGS LTD.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2020 and 2019

(Expressed in US Dollars)

NOTE 3 – CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS-CON'T

Areas requiring a significant degree of estimation relate to the determination of the life of patents and software development costs, the recoverability of carrying value of long-term assets, fair value measurements for financial instruments and stock-based compensation and other equity-based payments, and the recoverability and measurement of deferred tax assets and liabilities. Actual results may differ from those estimates and judgments.

Significant judgments

The preparation of financial statements in accordance with IFRS requires management to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments applying to the Company's financial statements include:

- Continuing feasibility of internally developed software;
- Whether there are indications of impairment of the Company's non-current assets; and
- The assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty.

Fair value measurements

A number of assets and liabilities included in the Company's financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Company's financial and non-financial assets and liabilities utilizes market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorized into different levels based on how observable the inputs used in the valuation technique utilized are (the 'fair value hierarchy'):

- *Level 1:* Quoted prices in active markets for identical items (unadjusted)
- *Level 2:* Observable direct or indirect inputs other than Level 1 inputs
- *Level 3:* Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognized in the period they occur.

The Company measures below market rate debt at fair value at inception and amortized cost over the remaining life of the notes.

Recoverability of long-lived assets

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

NOTE 4 – FINANCIAL RISK AND CAPITAL MANAGEMENT

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, accounts receivable, short-term investments, accounts payable and other accrued liabilities, due to related parties, loans payable, convertible debentures and derivative liabilities.

H-SOURCE HOLDINGS LTD.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2020 and 2019

(Expressed in US Dollars)

NOTE 4 – FINANCIAL RISK AND CAPITAL MANAGEMENT-CON'T

	March 31, 2020	December 31, 2019
Financial Assets		
Cash	\$ 38,780	\$ 9,881
Accounts receivable	152,038	75,631
Total financial assets	\$ 190,818	\$ 85,512
Financial Liabilities		
Accounts payable	\$ 1,214,365	\$ 951,902
Due to related parties	104,967	48,020
Loans payable	546,990	200,657
Convertible debentures	2,215,701	1,871,154
Derivative liabilities	375,459	595,156
Total financial liabilities	\$ 4,457,482	\$ 3,666,889

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 exchanges 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.

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NOTE 4 – FINANCIAL RISK AND CAPITAL MANAGEMENT-CON'T

d) Capital management

The Company considers its cash and share capital as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash. There was no change in the Company's approach to capital management during the period ended March 31, 2020.

NOTE 5 – GENERAL AND ADMINISTRIVE EXPENSES

	March 31, 2020	March 31, 2019
Office	\$ 25,926	\$ 27,960
Rent	16,288	15,449
Software expense	31,620	112,209
Transfer agent and regulatory fees	10,948	8,083
Travel	11,097	22,334
	<u>\$ 95,879</u>	<u>\$ 186,035</u>

NOTE 6 – INTANGIBLE ASSETS

Cost	Patents	Software Development Costs	Total
At December 31, 2018	\$ 107,498	\$ 184,533	\$ 292,031
Additions	-	646,060	646,060
Amortization	(13,004)	(184,533)	(197,537)
At December 31, 2019	94,494	646,060	740,554
Additions	-	34,500	34,500
Amortization	(3,251)	-	(3,251)
At March 31, 2020	<u>\$ 91,243</u>	<u>\$ 680,560</u>	<u>\$ 771,803</u>

NOTE 7 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2020	December 31, 2019
Accounts payable	\$ 1,097,238	\$ 951,902
Accrued liabilities	40,000	40,000
Accrued payroll and taxes	77,127	50,440
	<u>\$ 1,214,365</u>	<u>\$ 1,042,342</u>

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NOTE 8 – LOANS PAYABLE

On April 16, 2018, the Company entered into a term sheet whereby certain non-arm's length parties (the "Lenders") advanced \$174,304 to the Company as a loan (the "Loan"). The Loan bears an interest rate of 3% per month (36% per annum), calculated and payable monthly in arrears. The term of the Loan is 120 days commencing on the date on which the principal amount is advanced to the Company. The Company also entered into a memorandum of understanding with the Lenders on April 16, 2018, whereby the Loan is to be used by the Company to purchase certain assets. If the sale of the assets occurs on or before 60 days after the purchase, 15% of the net proceeds shall be paid to the Lenders and the Company will retain the remainder. If the sale of the assets occurs 60 days after, 20% of the net proceeds shall be paid to the Lenders and the Company will retain the remainder. As at March 31, 2020, \$87,639 of the principal amount still remains outstanding and \$104,383 was accrued as interest and profit sharing payable.

On November 30, 2018, the Company entered into a term sheet whereby certain non-arm's length parties (the "Lenders") advanced \$113,018 to the Company as a loan (the "Loan"). The Loan bears an interest rate of 2% per month (24% per annum), calculated and payable monthly in arrears. The term of the Loan is 120 days commencing on the date on which the principal amount is advanced to the Company. The Company also entered into a memorandum of understanding with the Lenders on November 30, 2018, whereby the Loan is to be used by the Company to purchase certain assets. If the sale of the assets occurs on or before 120 days after the date of the memorandum, 10% of the net proceeds shall be paid to the Lenders and the Company will retain the remainder. If the sale of the assets occurs 120 days after, 20% of the net proceeds shall be paid to the Lenders and the Company will retain the remainder. As at March 31, 2020, \$113,018 of the principal amount still remains outstanding and \$38,187 was accrued as interest and profit sharing payable.

During 2020, the Company entered into the following promissory notes for the purpose of purchasing inventory. The promissory notes include a profit margin provision whereby the Company will pay a sum equal to a percentage or fixed amount of the total selling price less the total cost (the "profit margin") of inventory sold from the inventory specifically identified in each promissory note. In the event the Company fails to pay the promissory notes on or before the maturity date, the lenders may elect to declare an increase in the rate of interest as indicated in the table below from the maturity date until such time as the promissory notes are paid. As at March 31, 2020, \$19,692 had been accrued as interest payable on the notes included in the table below.

Date	Principal	Interest Rate	Maturity Date	Profit Margin	Default Interest Rate
January 9, 2020	\$ 25,000	5% per month	April 8, 2020	10%	-
January 10, 2020	\$ 25,000	5% per month	April 9, 2020	10%	-
January 15, 2020	\$ 10,000	14% per annum	January 23, 2020	\$2,000	21% per annum
January 16, 2020	\$ 43,500	14% per annum	February 16, 2020	\$20,000	21% per annum
January 20, 2020	\$111,670	14% per annum	April 1, 2020	\$25,000	21% per annum
January 22, 2020	\$ 21,530	14% per annum	March 23, 2020	10%	21% per annum
January 29, 2020	\$ 44,633	5% per month	May 8, 2020	10%	-
February 14, 2020	\$ 25,000	5% per month	April 14, 2020	10%	-
March 5, 2020	\$ 40,000	14% per annum	April 6, 2020	\$12,500	21% per annum

NOTE 9 – CONVERTIBLE DEBENTURES

On June 10, 2019, the Company completed the first tranche of its non-brokered financing of unsecured convertible debentures in the principal amount of \$736,680 (before original issuer discount "OID"). The debentures mature on June 10, 2020 and bear interest at a rate of 12% per annum, calculated and paid on the earlier of (i) the maturity date or (ii) at the election of the holder and have an OID equal to 10% of the principal amount.

On July 23, 2019, the Company closed the second and final tranche of the non-brokered financing of unsecured convertible debentures in the principal amount of \$1,695,394 (before OID). The debentures mature on July 23, 2020 and bear interest at a rate of 12% per annum, calculated and payable on the earlier of (i) the maturity date or (ii) at the election of the holder and have an OID equal to 10% of the principal amount.

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NOTE 9 – CONVERTIBLE DEBENTURES-CON'T

The principal amount and any accrued and unpaid interest on the debentures in both tranches 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 were subject to a statutory hold period expiring on October 11, 2019 and November 24, 2019 for the first and second tranches, respectively. The debentures were not listed or posted for trading on any exchange.

The conversion feature of the debentures was classified as a derivative liability due to the exercise price being denominated in a different currency than the functional currency of the Company. Refer to Note 10. The Company recognized transaction costs of \$179,719, consisting of \$52,888 for the fair value of agent compensation options (Note 11) and \$126,831 in cash for the year ended December 31, 2019 in relation to the issuance of the convertible debentures. As at March 31, 2020, all debentures remain outstanding.

	Tranche 1	Tranche 2	Total
Face value of debentures on issuance	\$ 736,680	\$ 1,695,394	\$ 2,432,074
Bifurcation of derivable liabilities	(222,531)	(489,531)	(712,062)
OID	(73,668)	(169,539)	(243,207)
Transaction costs	(8,445)	(171,274)	(179,719)
Interest and accretion	187,549	360,182	547,731
Impact of foreign exchange	8,845	17,492	26,337
At December 31, 2019	628,430	1,242,724	1,871,154
Interest and accretion	99,188	245,359	344,547
At March 31, 2020	\$ 727,618	\$ 1,488,083	\$ 2,215,701

NOTE 10 – DERIVATIVE LIABILITIES

The conversion feature of the convertible debentures, as disclosed in Note 9, is required to be recognized as a derivative due to the conversion price being denominated in a currency other than the Company's functional currency. The derivative is recorded at fair value on recognition and at each subsequent reporting date with the changes in fair value recognized in the statement of loss and comprehensive loss.

	Tranche 1	Tranche 2	Total
Fair value on bifurcation	\$ 222,531	\$ 489,531	\$ 712,062
Gain on fair value	(36,535)	(80,371)	(116,906)
At December 31, 2019	185,996	409,160	595,156
Gain on fair value	(75,822)	(143,875)	(219,697)
At March 31, 2020	\$ 110,174	\$ 265,285	\$ 375,459

For the periods ending March 31, 2020 and 2019, the Company recorded a gain on the change in fair value of the derivative liabilities of \$219,697 and \$nil, respectively. The Company uses the Black Scholes Option Pricing Model to calculate the fair values of the derivative liabilities. The following table shows the assumptions used in the calculations:

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NOTE 10 – DERIVATIVE LIABILITIES-CON'T

	Expected Volatility	Risk-free Interest Rate	Expected Dividend Yield	Expected Life (in years)
Tranche 1				
As at June 10, 2019	126%	1.50%	0%	1.0
As at December 31, 2019	142%	1.71%	0%	0.4
As at March 31, 2020	162%	0.46%	0%	0.2
Tranche 2				
As at July 23, 2019	135%	1.52%	0%	1.0
As at December 31, 2019	142%	1.71%	0%	0.5
As at March 31, 2020	162%	0.46%	0%	0.3

NOTE 11 – SHARE CAPITAL

Authorized common shares

The authorized share capital of the Company is unlimited number of common shares without par value.

Share purchase option compensation plan

The Company has adopted a Stock Option Plan (the “Plan”) pursuant to which options may be granted to directors, officers, employees and consultants of the Company. Under the terms of the Plan, the Company can issue a maximum of 10% of the issued and outstanding common shares at the time of the grant, and the exercise price of each option is equal to or above the market price of the common shares on the grant date. Options granted under the Plan including vesting and the term, are determined by, and at the discretion of, the Board of Directors.

The continuity of stock options for the period ended March 31, 2020 and year ended December 31, 2019 is as follows:

	March 31, 2020		December 31, 2019	
	Number of Options	Weighted Average Exercise Price CDN\$	Number of Options	Weighted Average Exercise Price CDN\$
Options outstanding, beginning of the period	4,150,000	\$0.15	5,672,500	\$0.17
Expired	-	-	(1,522,500)	\$0.22
Options outstanding, end of the period	4,150,000	\$0.15	4,150,000	\$0.15
Options exercisable, end of the period	3,903,333	\$0.15	3,903,333	\$0.15

The options outstanding at March 31, 2020 are as follows:

Number Outstanding	Weighted Average Remaining Contractual Life	Expiry Date
1,680,000	0.42 years	August 31, 2020
400,000	0.76 years	January 1, 2021
100,000	0.83 years	January 28, 2021
300,000	1.36 years	August 9, 2021
1,670,000	1.34 years	August 1, 2021
4,150,000	0.90 years	

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NOTE 11 – SHARE CAPITAL-CON'T

On August 1, 2018, the Company granted 1,300,000 stock options to directors and officers, 445,000 stock options to employees, and 25,000 stock options to a consultant of the Company. The options are exercisable at CDN\$0.16 and expire on August 1, 2021. The 1,300,000 options to directors and officers vested immediately. The 445,000 options to employees and 25,000 options to a consultant vest 33.33% on August 1, 2019, 33.33% on August 1, 2020, and 33.34% on August 1, 2021. The Company valued the options to directors and officers, employees, and consultant at \$106,082, \$36,313 and \$942 respectively using the Black-Scholes Option Pricing Model to estimate the fair value of the options using the following assumptions: risk free interest rate of 2.22%; dividend yield of 0%; expected volatility of 109.95%; and expected option life of 3 years. The Company recorded a share-based payment for vesting options in the amount of \$1,903 and \$5,487 for the periods ending March 31, 2020 and 2019 respectively. As at March 31, 2020, there was \$7,560 of unrecognized share-based payments related to non-vested stock options granted under the Plan.

Option pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates and therefore, in management's opinion, existing models do not necessarily provide reliable measure of the fair value of the Company's stock options.

Restricted stock unit plan

The Company has adopted a Restricted Stock Unit ("RSU") plan. The RSU Plan was designed to provide certain directors, officers, other key employees and consultants of the Company ("Participants") and its related entities with the opportunity to acquire RSUs of the Company in order to enable them to participate in the long-term success of the Company and to promote a greater alignment of their interests with the interests of the shareholders. Under the terms of the plan, RSU's are granted to Participants and the shares issued vest over a period of up to three years from the date of grant. Each RSU gives the Participant the right to receive one common share of the Company. The Company has reserved a maximum of 2,272,805 common shares for issuance under this plan. As at March 31, 2020, the Company has 1,222,805 RSU's available to be issued under the RSU plan.

The Company uses the fair value method to recognize the obligation and compensation expense associated with the RSU's. The fair value of RSU's issued is determined on the grant date based on the market price of the common shares on the grant date multiplied by the number of RSUs granted and taking into account market conditions. The fair value is expensed over the vesting term. Upon conversion of the RSU, the carrying amount is recorded as an increase in common share capital and a reduction in the share-based payment reserve.

On August 1, 2018, the Company granted 1,050,000 RSUs to officers and an employee of the Company, in which 40%, 40% and 20% can be converted into common shares upon achieving certain performance conditions, which are as follows: the Company's share price reaching CDN\$0.20 based on 10 consecutive trading day weighted average; CDN\$0.25 based on 10 consecutive trading day weighted average; and CDN\$0.35 based on 10 consecutive trading day weighted average. The RSUs will expire on December 31, 2021. As at March 31, 2020, there were 950,000 RSU's issued and outstanding. The Company recorded a share-based payment for vesting RSUs of \$2,048 and \$2,510 for the periods ending March 31, 2020 and 2019, respectively.

During the year ended December 31, 2018, the first performance condition was met and 420,000 RSUs can be converted into 420,000 common shares. As at March 31, 2020, these RSUs have not been converted to common shares of the Company and are included in Common Shares to be Issued on the statement of financial position.

Compensation options

On January 4, 2018, the Company issued 1,284,375 agent compensation options. Each compensation option was exercisable into one common share of the Company at CDN\$0.10. These compensation options were not exercised and expired on July 4, 2019. The fair value of the compensation options of \$50,812 included in share issuance cost was estimated using the Black-Scholes Option Pricing Model with the following assumptions at the issue date: risk free interest rate of 1.68%; dividend yield of 0%; expected volatility of 49.15%; and expected life of 1.5 years.

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NOTE 11 – SHARE CAPITAL-CON'T

On July 12, 2018, the Company issued 575,000 agent compensation options. Each compensation option was exercisable into one common share of the Company at CDN\$0.15. These compensation options were not exercised and expired on January 12, 2020. The fair value of the compensation options of \$38,953 included in share issuance cost was estimated using the Black-Scholes Option Pricing Model with the following assumptions at the issue date: risk free interest rate of 1.93%; dividend yield of 0%; expected volatility of 100.8%; and expected life of 1.5 years.

On July 23, 2019, the Company issued 1,702,500 agent compensation options. Each compensation option is exercisable into one common share at USD\$0.06 expiring 5 years from the issuance date. The fair value of the compensation options of \$52,888 included in transaction costs of convertible debentures was estimated using the Black-Scholes Option Pricing Model with the following assumptions at the issue date: stock price of CDN\$0.04; exercise price of CDN\$0.05; risk free interest rate of 1.52%; dividend yield of 0%; expected volatility of 117%; and expected life of 3.8 years.

	March 31, 2020		December 31, 2019	
	Number of options	Weighted Average Exercise Price CDN\$	Number of options	Weighted Average Exercise Price CDN\$
Options outstanding, beginning of the year	2,277,500	\$0.09	1,859,375	\$0.12
Issued	-	-	1,702,500	\$0.08*
Expired	(575,000)	\$0.15	(1,284,375)	\$0.10
Options outstanding, end of the year	1,702,500	\$0.09	2,277,500	\$0.09

* Exercise price of US\$0.06 converted to CDN\$0.09 and CDN\$0.08 as at March 31, 2020 and December 31, 2019, respectively.

NOTE 12 – SUPPLEMENTAL CASH FLOW INFORMATION

	March 31, 2020	March 31, 2019
Interest paid in cash	\$ 1,049	\$ -
Income taxes paid in cash	\$ -	\$ -

Investing and financing non-cash transactions

	March 31, 2020	March 31, 2019
Share-based payments	\$ 3,951	\$ 7,997

NOTE 13 – RELATED PARTY TRANSACTIONS

Related party transactions are as follows:

Key management (officers and directors) personnel compensation including share-based payments for the three months ended March 31, 2020 was \$77,048 (2019 - \$88,760).

As at March 31, 2020, \$nil (2019 - \$41,950) was due to related parties for bonuses payable to the Company's CEO and President. As at July 23, 2019, unsecured convertible debentures with an aggregate principal amount (after OID) of \$27,925 were issued in payment of accrued bonuses due to the Company's CEO and President in the amounts of \$21,950 and \$5,975, respectively. The convertible debentures bear interest at a rate of 12% per annum and mature on July 23, 2020. The principal amount and any accrued and unpaid interest on the debentures are convertible into common shares in the capital of the Company, in whole or in part, at any time on or before the maturity date of July 23, 2020 at a conversion price of US\$0.06 per share. All securities issued in connection with the convertible debentures were subject to a statutory hold period expiring on November 24, 2019. As at March 31, 2020, the debentures were still outstanding.

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NOTE 13 – RELATED PARTY TRANSACTIONS- CON'T

On February 25, 2019, the Company issued a \$35,000 unsecured promissory note payable to the President of the Company. The promissory note had an interest rate of 10% and a maturity date of February 25, 2020. As at June 10, 2019, the principal balance plus accrued interest of \$781 on the promissory note was utilized to subscribe to an unsecured convertible debenture in the principal amount (after OID) of \$35,781 which bears interest at a rate of 12% per annum. The principal amount and any accrued and unpaid interest on the debenture are convertible into common shares in the capital of the Company, in whole or in part, at any time on or before the maturity date of June 10, 2020 at a conversion price of US\$0.06 per share. All securities issued in connection with the convertible debenture were subject to a statutory hold period expiring on October 11, 2019. As at March 31, 2020, the debentures were still outstanding.

As at March 31, 2020, the Company owed \$41,843 (2019 - \$nil) and \$15,124 (2019 - \$nil) for notes payable and \$2,983 (2019 - \$nil) and \$500 (2019 - \$nil) for related interest payable to the CEO and President, respectively. The principal owed on the notes payable is included in due to related parties and the interest is included in interest and profit sharing payable. The notes bear an interest rate of 14% per annum and mature on December 16, 2020. In the event the notes are not paid on or before the maturity date, the lenders may elect to declare an increase in the interest to 21% per annum from the maturity date until such time as the promissory notes are paid.

As at March 31, 2020, the Company owed \$30,000 (2019 - \$nil) for a note payable to the CFO of the Company and \$633 (2019 - \$nil) in related interest payable. The principal owed on the note payable is included in due to related parties and the interest is included in interest and profit sharing payable. The note bears an interest rate of 14% per annum and matures on December 31, 2020. In the event the note is not paid on or before the maturity date, the Lender may elect to declare an increase in the interest to 21% per annum from the maturity date until such time as the promissory note is paid.

As at March 31, 2020, the Company owed \$18,000 (2019 - \$nil) for a note payable to a director and \$673 (2019 - \$nil) in related interest payable. The principal owed on the note payable is included in due to related parties and the interest is included in interest and profit sharing payable. The note bears an interest rate of 14% per annum and matures on December 26, 2020. In the event the note is not paid on or before the maturity date, the Lender may elect to declare an increase in the interest to 18% per annum from the maturity date until such time as the promissory note is paid.

As at March 31, 2020, the Company owed \$39,990 (2019 - \$39,990) for a loan payable to a director and \$13,504 (2019 - \$5,551) 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.

NOTE 14 – SUBSEQUENT EVENTS

Paycheck Protection Program

On May 5, 2020, the Company entered into an unsecured promissory note with a commercial bank in the principal amount of \$211,800. The note was obtained pursuant to the Paycheck Protection Program (the “PPP”) of the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) administered by the U.S. Small Business Administration (“SBA”).

The note is dated May 5, 2020 and matures two years from the disbursement date. The note bears interest at a rate of 1% per annum, which shall be deferred for the first six months of the term of the note. After the initial deferral period, the note requires monthly payments of principal and interest until maturity with respect to any portion of the note which is not forgiven as described below. The Company is permitted to prepay or partially prepay the PPP note at any time with no prepayment penalties.

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NOTE 14 – SUBSEQUENT EVENTS- CON'T

Paycheck Protection Program (con't)

Under the terms of the CARES Act, PPP loan recipients can apply for, and be granted forgiveness for all or a portion of loans granted under the PPP. Such forgiveness will be determined, subject to limitations and ongoing rule making by the SBA, based on the use of loan proceeds for payroll costs, including payments required to continue group health care benefits, and certain rent, utility, and mortgage interest costs and the maintenance of employee and compensation levels. While there is no assurance the Company will obtain forgiveness of the PPP loan in whole or in part, the Company intends to use the proceeds of the note for qualifying expenses.

Convertible Debentures

The convertible debentures disclosed in Note 9 matured on June 10, 2020 and July 23, 2020. The total amount owing for principal and interest on the first tranche is \$825,082 which is convertible into 13,751,360 common shares of the Company. The total amount owing for principal and interest on the second tranche is \$1,898,841 which is convertible into 31,647,350 common shares.

The Company is waiting to receive the conversion certificates from the debenture holders. As at this date, no shares have been issued in connection with the conversion of the debentures, nor has any of the principal and accrued interest relating to this debt been repaid in cash.