

tracesafe

TraceSafe Inc.

Unaudited Condensed Consolidated Interim Financial Statements
For the nine months ended September 30, 2021 and 2020
(Expressed in United States dollars unless otherwise stated)

NOTICE TO READER

Under National Instrument 51-102, if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim financial statements have been prepared by management and were not reviewed by the Company's independent auditor.

TraceSafe Inc.
Condensed Consolidated Balance Sheets
(Expressed in US Dollars – unaudited)

	September 30 2021	September 30 2020
Assets		
Current assets		
Cash	\$ 1,557,251	\$ 394,560
Receivables	1,325,592	1,171,511
Prepaid expenses	90,892	891,756
	2,973,735	2,457,827
Fixed assets	34,746	-
Research & Development (Note 5)	-	489,024
Investments	4,070,233	1,182,000
Goodwill	3,650,355	-
	\$ 10,729,069	\$ 4,128,851
Liabilities		
Current liabilities		
Payables	\$ 1,963,925	\$ 726,919
Accrued expenses	641,910	-
Deferred revenue	354,273	30,000
Accounts receivable factoring (Note 7)	937,226	-
Notes Payable (Note 9)	347,825	-
	4,245,159	756,919
Shareholders' equity		
Share capital (Note 3)	19,421,094	13,943,068
Warrant and option reserve	1,286,206	3,740,056
Equity attributable to non-controlling interest	3,514,415	-
Contributed surplus	820,690	-
Accumulated other comprehensive earnings	(31,828)	(34,797)
Retained earnings	(18,526,666)	(14,276,395)
	6,483,910	3,371,932
	\$ 10,731,206	\$ 4,128,851

TraceSafe Inc.Condensed Consolidated Statements of Earnings and Comprehensive Loss
(Expressed in US Dollars – unaudited)

	July 1 to September 30		January 1 to September 30	
	2021	2020	2021	2020
Revenue				
Product sale	\$ 5,385,642	\$ 1,085,291	\$ 9,075,578	\$ 1,601,565
Service income	578,981	-	1,575,529	-
	5,964,623	1,085,291	10,651,107	-
Cost of revenue	3,441,996	637,034	7,592,089	959,135
	2,522,627	448,257	3,059,018	642,430
Operating expenses				
Bad debt expense	1,460	-	6,460	-
Bank charges	8,856	3,188	16,223	6,289
Depreciation	2,206	-	4,646	-
Development	521,692	(281,551)	1,466,730	45,504
General and administration (Note 6)	186,896	93,917	569,138	148,683
Marketing	44,411	-	168,286	-
Personnel, payroll, and consultants	926,426	278,920	2,824,865	199,673
Professional fees (Recovery) (Note 10)	(438,750)	549,302	93,731	1,331,870
Regulatory and transfer agent fees	2,756	7,120	25,830	28,886
Stock-based compensation	127,980	227,347	2,254,266	892,985
	1,383,933	878,243	7,430,176	2,689,042
Operating Income (Loss)	1,138,694	(429,986)	(4,371,158)	(2,046,612)
Other items				
Other income	-	-	(11,891)	-
Interest (Note 11)	164,575	86,863	408,291	255,426
Tax	(20,980)	-	39,308	-
Foreign exchange	(10,623)	(5,508)	12,069	(2,456)
Net income (Loss)	\$1,061,630	\$(511,341)	\$(4,763,027)	\$(2,299,582)
Net income (Loss) attributed to parent	1,224,836	(940,397)	(2,053,199)	(2,229,582)
Net income (Loss) attributed to non-controlling interest	(219,113)		(2,765,735)	-
Total comprehensive income (Loss)	\$ 1,061,630	\$ (511,341)	\$ (4,763,027)	\$ (2,229,582)
Earnings (Loss) per share attributed to owners of the parent. Basic and diluted	\$ 0.03	\$ (0.02)	\$ (0.05)	\$ (0.08)
Weighted average number of shares outstanding. Basic and diluted	44,911,641	33,767,168	42,040,252	28,741,435

TraceSafe Inc.Condensed Consolidated Statements of Changes in Shareholders' Equity
(Expressed in US Dollars – unaudited)

	July 1 to September 30		January 1 to September 30	
	2021	2020	2021	2020
Share Capital				
Balance - beginning of period	\$ 21,616,364	\$ 12,355,667	\$16,540,138	\$ 11,137,327
Issuance of shares by warrants	-	-	2,750,788	246,454
Issuance of shares by options	-	1,587,401	212,095	1,567,397
Issuance of shares for performance	-	-	2,113,343	665,638
Issuance of shares for service	87,900	-	87,900	-
Repurchase of common shares	-	-	-	-
Balance - end of period	\$ 21,704,264	\$ 13,943,068	\$21,704,264	\$ 13,943,068
Retained Earnings				
Balance - beginning of period	\$ (21,741,314)	\$ (13,750,593)	\$ (15,916,656)	\$ (11,976,813)
Net income (Loss)	1,005,722	(525,802)	(4,818,935)	(2,299,582)
Balance - end of period	(20,735,591)	(14,276,395)	(20,735,591)	(14,276,395)
Adjustment for non-controlling interest	(6,665,482)	-	(6,665,482)	-
Net retained earnings for owners of parent company	\$ (27,401,074)	\$ (14,276,395)	\$ (27,401,074)	\$ (14,276,395)
Number of Shares Outstanding				
Balance - beginning of period	44,716,888	31,287,421	35,765,784	22,238,031
Issuance of shares by warrants	-	-	5,828,850	1,097,213
Issuance of shares by options	-	4,153,850	572,254	10,426,027
Issuance of shares for performance	-	-	2,550,000	1,700,000
Issuance of shares for service	194,753	-	194,753	-
Repurchase of common shares	-	-	-	-
Balance - end of period	44,911,641	35,441,271	44,911,641	35,441,271

TraceSafe Inc.Condensed Consolidated Statements of Cash Flows
(Expressed in US Dollars – unaudited)

	July 1 to September 30		January 1 to September 30	
	2021	2020	2021	2020
Operating activities				
Net income (Loss)	\$ 1,005,722	\$ (525,801)	\$ (4,818,965)	\$ (2,299,582)
Changes in working capital				
Accounts Receivable	1,509,923	(705,541)	518,679	(1,170,315)
Prepaid	80,049	(835,388)	731,988	(868,689)
Depreciation	2,201	-	75,774	-
Accounts Payable	(104,339)	(244,344)	836,110	581,558
A/R Factoring Payable	151,635	-	(530,559)	-
Accrued Liabilities	492,065	-	408,068	-
Loan Payable	-	-	110,000	-
Deferred Revenue	(2,470,555)	30,000	300,355	30,000
Share based compensation	-	892,985	-	892,985
	666,701	(1,388,089)	(2,368,551)	(2,834,043)
Financing activities				
Common Stock	87,900	2,017,339	5,164,127	3,235,679.00
Stock Options	-	-	(2,151,831)	-
Convertible Debenture	-	-	-	781,229
Notes Payable	146,230	-	347,825	-
	234,131	2,017,339	3,360,121	4,016,908
Investing activities				
Acquisition of TraceSafe Technology	-	-	-	(300,000)
Fixed Assets	(8,302)	(489,024)	(39,746)	(489,024)
	(8,302)	(489,024)	(39,746)	(789,024)
Change in cash	892,531	140,226	951,825	393,841
Cash – beginning of period	664,720	254,334	605,426	719
Cash – end of period	\$ 1,557,251	\$ 394,560	\$ 1,557,251	\$ 394,560

TraceSafe Inc.

Notes to Condensed Consolidated Interim Financial Statements
(Expressed in US Dollars, unless otherwise stated – unaudited)

1. Nature and continuance of operations

TraceSafe Inc. (the “Company”) is listed on the Canadian Securities Exchange (“CSE”) under the symbol “TSF”. The registered office and head office of the Company is Craigmuir Chambers, P.O. Box 71, Road Town, Tortola, British Virgin Islands.

The Company’s business focuses on a self-quarantine monitoring technology “TraceSafe”, a real-time location management services and contact tracing solutions enabled through Bluetooth beacons and enterprise cloud management. The Company is developing leading edge solutions for Enterprise, Healthcare, Education, Government, and large-scale venue management.

The assessment of the Company’s ability to continue is an on-going concern, and its ability to fund potential projects involves significant judgement based on historical experience and other factors (including expectation of future events) that are believed to be reasonable under the circumstances.

The Company’s business involves a high degree of risk and there can be no assurance that current business development activity will ultimately result in profitable operations. The Company’s continued existence is dependent upon its ability to secure future customers and the achievement of profitable operations, or the ability of the Company to raise additional financing.

The outbreak of the coronavirus, also known as “COVID-19”, has spread across the globe and is impacting worldwide economic activity. The extent to which the coronavirus may impact the Company’s business activities will depend on the duration of the outbreak, travel restrictions, business disruptions, and treatment of the disease. The Company continues to closely monitor developments in the coronavirus outbreak, including the potential impact on the Company’s activities and its liquidity.

2. Basis of Preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). The principle accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

These consolidated financial statements were approved and authorized for issue by the Board of Directors on November 3, 2021.

Basis of Measurement

The financial statements have been prepared on a historical cost basis, modified where applicable. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its controlled entities. Control exists when the Company has power over an investee, exposure or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the Company's returns. Details of controlled entities are as follows:

	Jurisdiction of Incorporation	Percentage Owned	
		September 30, 2021	September 30, 2020
Jucca Holdings Limited	British Virgin Islands	100%	100%
Wishland Properties Limited	British Virgin Islands	100%	100%
TraceSafe Technologies Inc.	Nevada, United States	8.2%	20.4%
TraceSafe Asia Pacific Pte Ltd.	Singapore	70%	70%
TraceSafe Canada Inc.	British Columbia, Canada	100%	-

The Company owns 100% of the voting common shares of TraceSafe Technologies Inc. ("TraceSafe Tech") and therefore has consolidated TraceSafe Tech with the equity interest attributable to the non-controlling majority shareholder presented as non-controlling interest. (See Note 8)

TraceSafe Inc. owns 70% of the voting shares of the subsidiary TraceSafe Asia Pacific Pte. Ltd. and the Company required a local director to manage the day-to-day operations and is a representative of the Company. Due to certain agreements related to this arrangement, the Company has functional control and beneficial (100%) ownership.

On March 1, 2021, TraceSafe Canada Inc. was incorporated in the province of British Columbia, Canada. There are no operations in TraceSafe Canada Inc. as of September 30, 2021. Canadian operation is expected to move from Tracesafe Technologies Inc to TraceSafe Canada Inc in Q1 2022.

The Company attributes total comprehensive income or loss of subsidiaries between the owners of the parent entity and the non-controlling interests based on their respective ownership interests. Inter-company balances and transactions are eliminated on consolidation.

Functional and Presentation Currency

The financial statements are presented in US dollars, unless otherwise stated. The functional currency of the parent company is the Canadian dollar and the functional currency of each of the Company's subsidiaries is the US dollar, except for TraceSafe Asia Pacific Pte Ltd. whose functional currency is the Singapore dollar.

3. Share Capital

Authorized share capital

The authorized capital of the company consists of unlimited common shares without par value.

Issued share capital

A total of 194,753 common shares were issued between July 1 and September 30, 2021, bringing the total number of shares outstanding to 44,911,641.

Number of Shares Outstanding	January 1 to September 30	
	2021	2020
Balance - beginning of period	35,765,784	22,238,031
Issuance of Common Shares by Warrants	1,216,836	25,000
Issuance of Common Shares by Options	455,000	-
Issuance of Common Shares for Performance	2,550,000	1,700,000
Issuance of Common Shares for Service	524,021	-
Issuance of Common Shares by Exchange	4,400,000	-
Issuance of Common Shares by Debt Conversion	-	899,847
Issuance of Common Shares by Private Placement	-	10,578,993
Balance - end of period	44,911,641	35,441,271

Notable share issuances

On March 19, 2021 and June 16, 2021, 3,000,000 and 1,400,000 Class B Non-Voting Common Shares in TraceSafe Tech were exchanged for total of 4,400,000 Common Shares in TraceSafe Inc, as per the Contribution Agreement with WiSilica Inc dated April 22, 2020.

4. Related Party Transactions

Related parties include the Board of Directors, corporate officers, close family members, key management personnel, significant shareholders and enterprises that are controlled by these individuals as well as certain persons performing similar functions in material subsidiaries. This includes those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole and its subsidiaries.

	July 1 to September 30	
	2021	2020
Cost of Sales	\$ 256,166	\$ 345,745
Development	496,422	(281,551)
Management Fees	156,187	56,160
Professional Fees	-	20,296
Finance Charges	-	86,863
	\$ 908,775	\$ 227,513

During this period, a total expense of \$847,275 was incurred towards WiSilica Inc. (“WiSilica”), the company that was the vendor of the “TraceSafe” self-quarantine monitoring technology suite. The CEO of the Company’s new subsidiary, TraceSafe Technologies Inc., is a significant shareholder of WiSilica. Furthermore, transactions recorded in cost of sales, development (both on balance sheet and profit and loss) and finance charges are in the course of normal business and pursuant to the transition agreement.

5. Research and Development

\$489,024 of Research and Development was capitalized in Q3 2020 for Research and Development done through Q1 to Q3 2020. At 2020 year-end audit, it was determined all Research and Development should be expensed. This amount was expensed in Q4 2020.

6. General and Administrative Expenses

	July 1 to September 30	
	2021	2020
Insurance	\$ 37,944	\$ 14,613
Mail & Postage	2,359	-
Meals and Entertainment	8,448	-
Office Supplies	(10,769)	79,304
Phone & Internet	8,114	-
Rent	17,943	-
Software & Web Services	104,425	-
Travel	18,431	-
	\$ 186,896	\$ 93,917

7. Receivable factoring facility

On November 3, 2020, the Company entered into a working capital facility agreement for a factoring facility of \$3,000,000. Discount fees of 2.7% of the issued invoice amount of purchased receivable for 0-30 days outstanding and 0.09% of the invoice amount of purchased receivable will be charged to the Company per day past thirty days outstanding. The facility can be cancelled at any time by either party with 30 days written notice. The Company provided a general security agreement to secure the working capital facility.

As of September 30, 2021, the Company had an outstanding owing amount of \$937,226.

8. Non-Controlling Interest

The non-controlling interest represents the non-voting common shares and preferred shares of TraceSafe Tech held by non-controlling interest holders and is related to the consideration transferred in the acquisition of TraceSafe technology.

On March 19, 2021 and June 16, 2021, 3,000,000 and 1,400,000 Class B Non-Voting Common Shares in TraceSafe Tech were exchanged for total of 4,400,000 Common Shares in TraceSafe Inc, as per the Contribution Agreement with WiSilica Inc dated April 22, 2020. As a result, non-controlling interest in TraceSafe Tech changed from 92.5% to 91.8% as of June 16, 2021.

9. Note Payable

On June 10, 2021, TraceSafe Inc signed a convertible note with Patricia Steadman Ltd. for a principal amount of up to \$1,000,000 CAD, of which \$400,000 has been received as of September 30, 2021.

The note is for 1 year with an interest rate of 10.5% per annum.

On July 21, 2021, TraceSafe Inc signed a convertible note with Khione Gateway Inc. for a principal amount of \$33,600 CAD.

The note is for 1 year with an interest rate of 10.5% per annum.

10. Professional Fees

A clean-up was performed on the balance sheet and found a number of accruals from Q4 2020 and Q1 2021 which had either not been reversed when the invoice was received, or no invoice has yet been received. These accruals were determined to be unlikely to be realized in the future and so were reversed in Q3 2021.

11. Interest

Interest relates to charges for Receivables Factoring in the amount of \$164,575