



TRACESAFE INC. (FORMERLY BLOCKCHAIN HOLDINGS LTD.)

Consolidated Financial Statements

For the Years Ended December 31, 2019 and 2018

(Expressed in US Dollars)



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of TraceSafe Inc. (formerly Blockchain Holdings Ltd.)

Opinion

We have audited the consolidated financial statements of TraceSafe Inc. (formerly Blockchain Holdings Ltd.) (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

Without qualifying our opinion, we draw attention to Note 1 in the financial statements, which describes events and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is David Goertz.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

June 15, 2020



TRACESAFE INC. (FORMERLY BLOCKCHAIN HOLDINGS LTD.)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in US dollars)

	Notes	December 31, 2019	December 31, 2018
ASSETS			
Current assets			
Cash	\$	719	\$ 508,195
Account receivable		1,196	-
Prepays		23,067	19,681
		24,982	527,876
Investment in Airbeam	4	882,000	-
Total assets	\$	906,982	\$ 527,876
LIABILITIES			
Current liabilities			
Trade payables and accrued liabilities	5 \$	79,955	\$ 126,731
Due to related parties	8	65,406	101,595
Loans payable	6,8	204,449	-
Total liabilities		349,809	228,326
SHAREHOLDERS' EQUITY			
Share capital	7	11,137,327	10,222,879
Reserves	7	1,431,455	1,513,866
Accumulated other comprehensive loss		(34,797)	(28,762)
Deficit		(11,976,813)	(11,408,433)
Total shareholders' equity		557,172	299,550
Total liabilities and shareholders' equity	\$	906,982	\$ 527,876

Nature and Continuance of Operations (Note 1)
Subsequent Events (Note 14)

On behalf of the Board of Directors

“James Passin”

“Wayne Lloyd”

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

TRACESAFE INC. (FORMERLY BLOCKCHAIN HOLDINGS LTD.)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Expressed in US dollars)

		Year Ended December 31,	
	Note	2019	2018
Operating expenses			
Bank charges		\$ 2,015	\$ 1,432
Consulting fees	8,11	-	115,663
General and administrative	10	74,162	80,310
Management fees	8	230,533	179,971
Professional fees	8	347,861	321,297
Regulatory and transfer agent fees		24,412	42,208
Stock-based compensation	7,8	9,190	179,597
		(688,173)	(920,478)
Other Items			
Accretion		-	(79,665)
Interest expense		(2,372)	-
Finance charges		(1,171)	(9,199)
Foreign exchange		(6,035)	196,509
Loss on disposition of subsidiary	12	-	(172,451)
Loss on dissolution of subsidiary	13	-	(45,683)
Gain/(Loss) on settlement of debt	8	31,735	(393,473)
Write-off of accounts receivable		-	(8,050)
		28,191	(512,012)
Net loss		\$ (659,982)	\$ (1,432,490)
Other comprehensive loss		(6,035)	-
Comprehensive loss		\$ (666,016)	\$ (1,432,490)
Basic and diluted loss per share		\$ (0.03)	\$ (0.16)
Weighted average number of shares outstanding			
- Basic and diluted		21,461,434	8,964,440

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

TRACESAFE INC. (FORMERLY BLOCKCHAIN HOLDINGS LTD.)
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(expressed in US dollars)

	Number of Shares	Amount	Share – based payment reserve	Loan reserve	Accumulated Other Comprehensive Loss	Deficit	Attributable to equity holders of the Parent company	Non- controlling interests	Total
Balance, December 31, 2017	6,530,163	\$ 8,049,254	\$ 1,334,269	\$ 93,980	\$ (28,762)	\$ (9,975,943)	\$ (527,202)	\$ (355,632)	\$ (882,834)
Shares issued in private placements	6,515,532	951,230	-	-	-	-	951,230	-	951,230
Share issue costs	-	(14,146)	-	-	-	-	(14,146)	-	(14,146)
Shares issued for the settlement of debts	6,739,180	1,236,541	-	(93,980)	-	-	1,142,561	-	1,142,561
Stock-based compensation	-	-	179,597	-	-	-	179,597	-	179,597
Net loss	-	-	-	-	-	(1,432,490)	(1,432,490)	355,632	(1,076,858)
Balance, December 31, 2018	19,784,875	10,222,879	1,513,866	-	(28,762)	(11,408,433)	299,550	-	299,550
Shares issued in private placements	2,453,156	918,014	-	-	-	-	918,014	-	918,014
Share issuance costs	-	(3,566)	-	-	-	-	(3,566)	-	(3,566)
Adjustment on the expiration of stock options	-	-	(91,601)	-	-	91,601	-	-	-
Stock-based compensation	-	-	9,190	-	-	-	9,190	-	9,190
Net loss	-	-	-	-	(6,035)	(659,982)	(666,016)	-	(666,016)
Balance, December 31, 2019	22,238,031	\$ 11,137,327	\$ 1,431,455	\$ -	\$ (34,797)	\$ (11,976,813)	\$ 557,172	\$ -	\$ 577,172

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

TRACESAFE INC. (FORMERLY BLOCKCHAIN HOLDINGS LTD.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in US dollars)

	Year Ended December 31,	
	2019	2018
CASH FLOW USED IN OPERATING ACTIVITIES		
Net loss for the year	\$ (666,016)	\$ (1,432,490)
Items not involving cash:		
Stock-based compensation	9,190	179,597
Loss on settlement of debts	-	393,473
Write-off of accounts receivable	-	8,050
Loss on disposition of subsidiary	-	172,451
Loss on dissolution of subsidiary	-	45,683
Accretion	-	79,665
Accrued interest	1,171	7,694
Foreign exchange	-	(162,207)
Changes in non-cash working capital:		
Accounts Receivable	(1,196)	(8,050)
Prepays	(3,386)	(16,331)
Trade payables and accrued liabilities	(148,371)	155,110
Due to related party	27,695	-
Net cash used in operating activities	(780,913)	(679,708)
CASH FLOW USED IN INVESTING ACTIVITIES		
Investment in Airbeam Wireless	(882,000)	-
Net cash used in investing activities	(882,000)	-
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from borrowings	240,989	39,876
Proceeds from the issuance of common shares, net	914,448	937,084
Net cash provided by financing activities	1,155,437	976,960
Effect of foreign exchange on cash	-	(12,143)
(Decrease) Increase in cash	(507,476)	285,109
Cash, beginning of the year	508,195	223,086
Cash, end of the year	\$ 719	\$ 508,195

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

TRACESAFE INC. (FORMERLY BLOCKCHAIN HOLDINGS LTD.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Expressed in US dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

TraceSafe Inc. (formerly Blockchain Holdings Ltd.) (the “Company”) is listed on the Canadian Securities Exchange (the “CSE”) under the symbol “BCX”. The Company holds an investment in a 5G-focused wireless technology company (Note 4). Subsequent to December 31, 2019, the Company acquired self-quarantine monitoring technology (Note 14)

The registered and head office of the Company is Sea Meadow House, Blackburne Highway, PO Box 116, Road Town, Tortola, British Virgin Islands.

These consolidated financial statements have been prepared on the assumption that the Company and its subsidiaries will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. As at December 31, 2019, the Company is not able to finance day-to-day activities through operations. The Company’s continuation as a going concern is dependent upon the successful results from its change of business and its ability to attain profitable operations and generate funds therefrom and/or raise equity capital or borrowings sufficient to meet current and future obligations. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. Management intends to finance operating costs over the next twelve months with loans from directors and companies controlled by directors and/or private placement of common shares. Should the Company be unable to continue as going concern, the net realizable value of its assets may be materially less than the amounts on its consolidated statement of financial position.

These consolidated financial statements were approved and authorized for issue by the Board of Directors on June 15, 2020.

2. BASIS OF PRESENTATION

Statement of Compliance

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”).

Certain line items in the statements of financial position for the year ended December 31, 2018 have been reclassified according to the nature of the transaction.

TRACESAFE INC. (FORMERLY BLOCKCHAIN HOLDINGS LTD.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Expressed in US dollars)

2. BASIS OF PRESENTATION (Continued)**Basis of Measurement**

The financial statements have been prepared on a historical cost basis. The financial statements are presented in US dollars; the Company's 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. The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies.

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. Inter-company balances and transactions are eliminated on consolidation.

Details of controlled entities are as follows:

	Jurisdiction of Incorporation	Percentage Owned	
		December 31, 2019	December 31, 2018
Jucca Holdings Limited	British Virgin Islands	100%	100%
Wishland Properties Limited	British Virgin Islands	100%	100%

Significant Accounting Judgments and Assumptions

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised in any future periods affected.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the fair value measurements for financial instruments, and the recoverability and measurement of deferred tax assets.

TRACESAFE INC. (FORMERLY BLOCKCHAIN HOLDINGS LTD.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Expressed in US dollars)

2. BASIS OF PRESENTATION (Continued)

Significant Judgments

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

- 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;
- the classification and valuation of financial instruments;
- the valuation and accounting treat of the investment in another entity; and
- the determination of the functional currency of the parent company and its subsidiaries.

3. SIGNIFICANT ACCOUNTING POLICIES

Foreign Currency Translation

The functional currency of the parent company is the Canadian dollar and the US dollar for each of its subsidiaries. The Company has adopted the US dollar as its reporting currency. Gains and losses resulting from translating the financial statements from Canadian dollars to US dollars are recorded in Other Comprehensive income (loss).

Transactions denominated in foreign currencies are translated into the respective functional currency as follows: monetary assets and liabilities are translated using the exchange rate in effect at the reporting date and expenses are translated using the average foreign exchange rate for the period. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates at the date of the initial transaction. All differences are taken to the consolidated statement of comprehensive loss in the period in which they arise.

Differences arising from the translation of foreign subsidiaries into the Company's reporting currency are recorded on Other Comprehensive Income (Loss). The translation difference derived from each subsidiary is transferred to the consolidated Statement of Loss when there is a loss of control of the respective subsidiary.

Share-Based Payments

The Company operates a stock option plan. Share-based payments to employees are measured at the fair value of the stock options granted and recognized over the vesting periods. Share-based payments to non-employees are measured at fair value of goods or services received or the fair value of the equity instruments issued, if it is determined using the Black-Scholes option pricing model, taking into account the terms and conditions upon which stock options are granted. At each reporting date, the amount recognized as expense is adjusted to reflect the actual number of stock options that are expected to vest.

TRACESAFE INC. (FORMERLY BLOCKCHAIN HOLDINGS LTD.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Expressed in US dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 during the reporting 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 by the treasury stock method. Under the treasury stock method, the diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all options and warrants outstanding that may add to the total number of common shares. As at December 31, 2019, the Company's diluted loss per share was the same as the basic loss per share as the Company did not have any potentially dilutive instruments.

Financial Instruments

Financial instruments are accounted for in accordance with IFRS 9, "Financial Instruments: Classification and Measurement". A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost.

The Company determines the classification of 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 the Company has opted to measure them at FVTPL.

Debt investments at FVTOCI

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

TRACESAFE INC. (FORMERLY BLOCKCHAIN HOLDINGS LTD.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Expressed in US dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

(ii) Measurement

Equity investments at FVTOCI

These assets are subsequently measured at fair value. Dividends are recognised 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 recognised in OCI and are never reclassified to profit or loss.

Financial assets and liabilities at amortized cost

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 at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of comprehensive 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 comprehensive loss in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive income (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 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 of financial assets

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.

TRACESAFE INC. (FORMERLY BLOCKCHAIN HOLDINGS LTD.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Expressed in US dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

(v) Derecognition of financial liabilities

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

Income Taxes

Current Income Tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from and paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income. Current income tax relating to items recognized directly in other comprehensive loss or equity is recognized in other comprehensive loss or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred Tax

Deferred tax is recorded by providing for temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes related to the same taxable entity and the same taxation authority.

TRACESAFE INC. (FORMERLY BLOCKCHAIN HOLDINGS LTD.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Expressed in US dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

This is the first period for which the Company has applied IFRS 16. The Company has adopted IFRS 16 on a modified retrospective approach. This new standard 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.

There have been no adjustments to these financial statements as a result of the transition to IFRS 16 as of January 1, 2019 as the Company was not a party to any lease agreements.

4. INVESTMENT IN AIRBEAM WIRELESS TECHNOLOGIES INC.

On March 12, 2019, the Company purchased 9,876,191 Airbeam Wireless Technologies Inc. ("Airbeam") Class A Voting Common Shares ("Airbeam Shares") for \$882,000 (CDN\$1,185,143). The CEO and director of the Company is also a director of Airbeam.

The Company has determined it does not have control or significant influence over Airbeam and has therefore classified its investment as a financial asset. The Company has elected to classify this investment at FVTOCI. At December 31, 2019, management considers that the cost of the investment is the most reliable indicator of fair value.

As at December 31, 2019, the Company had amounts receivable of \$1,196 (December 31, 2018: \$nil) from Airbeam.

5. TRADE PAYABLES AND ACCRUED LIABILITIES

		December 31, 2019		December 31, 2018
Trade payables	\$	55,563	\$	123,062
Accrued liabilities		24,392		3,669
	\$	79,955	\$	126,731

TRACESAFE INC. (FORMERLY BLOCKCHAIN HOLDINGS LTD.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

*(Expressed in US dollars)***6. Loans Payable**

	December 31, 2019	December 31, 2018
Balance, beginning	\$ -	\$ 429,394
Debt issuance	203,316	39,876
Accretion	-	30,522
Interest accrued	1,771	7,694
Effect of foreign exchange	-	(23,943)
Settled with issuance of common shares	-	(483,543)
Balance, ending	\$ 204,449	\$ -

On November 28, 2019, the Company issued new convertible loans in the amount of \$203,316 (CDN \$264,000). These loans were unsecured, have a term of interest at 6.5% per annum, are due to mature one year from their respective date of issuance and at the option of the holder, and are convertible into common shares of the Company at a Conversion Price of \$0.46 (CDN\$0.60) per common share provided that if the Company completes a private placement or public offering of equity securities prior to the maturity date at prices lower than \$0.46 (CDN\$0.60) the conversion price will instead be lowest price such equity securities are offered under such private placement or public offering.

Because the conversion price is not fixed, the conversion option was determined to be a derivative liability. The Company has elected to measure the entire convertible loans at FVTPL rather than separately recognize the derivative. At December 31, 2019, the fair value approximates the proceeds received plus accrued interest.

A Director of the Company participated in the convertible loan by subscribing with \$37,659 (CDN\$50,000) cash and converting \$63,920 in debt for a total of \$101,579 in convertible loans.

During the year ended December 31, 2018, the Company settled debt with the issuance of common shares to the respective lenders. The terms of indebtedness in the amount of \$191,720 with three shareholders such that the first repayment date was after June 30, 2019. The loan did not accrue interest. The Company recorded \$49,143 as a credit to contributed surplus reflecting the discount compared to a similar loan that pays interest at market rates and recognized an accretion expense in the amount of \$18,554.

During the year ended December 31, 2018, the Company settled loans payable in the amount of \$469,270. These loans were unsecured, included terms of interest at 8% per annum and were due to mature one year from their respective date of issuance. Subsequent to the issuance of these loans payable, the terms were renegotiated to remove a conversion feature. However, subsequent to the renegotiated terms, all of the outstanding loans were settled with the issuance of common shares.

TRACESAFE INC. (FORMERLY BLOCKCHAIN HOLDINGS LTD.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Expressed in US dollars)

7. SHARE CAPITAL

Authorized

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

The holders of common shares are entitled to receive dividends (if any), which are declared from time to time, and are entitled to one vote per share at the Company's shareholder meetings. All shares are ranked equally with regards to the Company's residual assets.

Issuances

Year Ended December 31, 2019

On February 19, 2019, the Company completed a private placement of 443,156 common shares at a price of \$0.379 per share for total proceeds of \$168,151.

On May 13, 2019, the Company completed a private placement of 2,010,000 common shares at a price of \$0.371 per share for total proceeds of \$749,863. In connection with share issuances, the Company paid a finder's fees of \$3,566.

Year Ended December 31, 2018

On April 17, 2018, the Company completed a non-brokered private placement for gross proceeds of \$392,681 at a price of \$0.0785 per subscription receipt. The proceeds were held in escrow pending completion of the transactions approved at the Company's Annual General and Special Meeting. On October 15, 2018, the Company issued 5,000,000 common shares as settlement of the subscription receipts.

On October 15, 2018, the Company issued 6,283,046 common shares in settlement of loans payable in the amount of \$581,980 (CDN \$755,818) including accrued interest thereon. The shares were recorded at their fair value of \$991,264 based on their quoted market price. The Company recorded a loss on settlement of debt of \$409,284 in connection with this share issuance.

On December 21, 2018, the Company completed a non-brokered private placement for gross proceeds of \$558,549 at a price of \$0.369 per common share for the total issuance of 1,515,532 common shares.

On December 21, 2018, concurrent with the non-brokered private placement, the company negotiated debt settlement with officers and consultants in the amount of \$168,108 (\$CDN 228,067) by issuing an aggregate of 456,134 common shares with a fair value of \$151,297. The Company recorded a gain on settlement of debt of \$16,811 in connection with this share issuance.

TRACESAFE INC. (FORMERLY BLOCKCHAIN HOLDINGS LTD.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

*(Expressed in US dollars)***7. SHARE CAPITAL (Continued)***Stock options*

Under the terms of the Company's stock option plan (the "Plan") all options are granted with an exercise price above the closing market price on the day immediately preceding the date of grant. The term of options is determined by the Board of Directors and is typically three or five years with a maximum term of 10 years. The maximum number of options authorized for issue shall be 10% of the outstanding shares in issue at the date of the option grant.

Stock based compensation of \$9,190 (December 31, 2018: \$179,597) relates to the vesting of options granted during the year ended December 31, 2018. The fair value of the options granted was calculated using the Black-Scholes option pricing model based on the following weighted average assumptions: Risk free-interest rate – 2.30%; Dividend yield – 0.00%; Expected volatility – 110.98%; Expected life – 5.00 years.

The continuity of the number of share purchase options outstanding is as follows:

	Number		Weighted average exercise price
Balance, December 31, 2017	250,000	\$	2.40
Granted	1,500,000		0.20
Cancelled	(102,500)		2.40
Forfeited	(65,000)		2.40
Balance, December 31, 2018	1,582,500		0.32
Expired	(70,000)		2.50
Outstanding, December 31, 2019	1,512,500	\$	0.21

As at December 31, 2019, the following options were outstanding:

Number of options		Expiry date	Exercise price	Weighted remaining contractual life (years)
<i>Outstanding</i>	<i>Exercisable</i>			
12,500	12,500	December 3, 2020	\$ 2.00	0.93
1,500,000	1,500,000	October 15, 2023	\$ 0.20	3.79
1,512,500	1,512,500			

TRACESAFE INC. (FORMERLY BLOCKCHAIN HOLDINGS LTD.)

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FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

*(Expressed in US dollars)***7. SHARE CAPITAL** (Continued)**Share-based payments Reserve**

The share-based payment reserve records items recognized as stock-based compensation expense and other share-based payments until such time that the stock options are exercised, at which time the corresponding amount will be transferred to share capital. The warrant reserve records the fair value of warrants issued until such time that they are exercised, at which time the corresponding amount will be transferred to share capital.

Loan Reserve

The loan reserve records the balance of debt discounts attributable to fair value of the conversion feature embedded in a convertible debt instrument and the debt discounts on loans bearing interest at below market rates of interest.

8. RELATED PARTY TRANSACTIONS AND BALANCES

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers. The Company incurred the following operational transactions with directors and key management personnel during the years ended December 31, 2019 and 2018 was as follows:

	December 31, 2019		December 31, 2018	
Management fees	\$	223,533	\$	179,971
Professional fees		55,757		56,033
Consulting fee		-		12,369
Share-based compensation		9,190		100,659
	\$	288,480	\$	349,032

As at December 31, 2019, there was a balance of \$5,314 (December 31, 2018: \$2,797) in professional fees accrued as payable to the Company's Chief Financial Officer ("CFO").

As at December 31, 2019, there was a balance of \$7,592 (December 31, 2018: \$Nil) in management fees accrued as payable to the current Chief Executive Officer and a balance of \$Nil (December 31, 2017: \$91,798) accrued as payable to the Company's former Chief Executive Officer.

As at December 31, 2019, there was a balance of \$52,500 (December 31, 2018: \$7,000) in director fees accrued as payable to independent directors of the Company.

On February 22, 2019, the Company settled debts which include cash payments to the former CFO and CEO of \$11,083 and \$76,169 respectively pursuant to the debt settlement agreements. The Company recognized a gain on settlement of debt amounting to \$31,735 as a result.

TRACESAFE INC. (FORMERLY BLOCKCHAIN HOLDINGS LTD.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Expressed in US dollars)

9. FINANCIAL RISK AND CAPITAL MANAGEMENT

Included in loans payable is \$103,843 owed to a director of the Company (Note 6).

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 Company's financial instruments consist of cash, amounts receivable, investments, and trade payable and accrued liabilities. The fair values of these financial instruments approximate their carrying values, unless otherwise noted. No transfers occurred between the levels during the year. The Company's financial instruments are exposed to credit risk, liquidity risk, and market risks, which include currency risk and interest rate risk.

The following table provides an analysis of the Company's financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the inputs used to determine the fair value are observable.

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1, that are observable either directly or indirectly.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data.

TRACESAFE INC. (FORMERLY BLOCKCHAIN HOLDINGS LTD.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

*(Expressed in US dollars)***9. FINANCIAL RISK AND CAPITAL MANAGEMENT (Continued)**

	Level	2019 \$	2018 \$
FINANCIAL ASSETS			
FVTPL			
Cash	1	719	508,195
Amortized cost			
Amounts Receivable	1	1,196	-
FVTOCI			
Investment in Airbeam	3	882,000	-
Total financial assets		883,915	508,195
FINANCIAL LIABILITIES			
Amortized cost			
Due to related parties	3	65,406	101,595
Trade payables	1	55,563	123,062
FVTPL			
Loans payable	3	204,449	-
Total financial liabilities		325,418	224,657

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is its cash held in bank accounts. Cash is deposited in bank accounts held with a major bank in Canada. As most of the Company's cash is held by one bank, there is a concentration of credit risk. However, this risk is managed by using a bank that has a high credit quality as determined by rating agencies.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in US dollars)

9. FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient holdings of cash and cash equivalents to meet its short-term exploration and evaluation requirements and anticipated operating cash flows. Historically the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

Foreign Exchange Risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company's subsidiaries are exposed to currency risk as they incur expenditures that are denominated in US dollars. The Company does not hedge its exposure to fluctuations in foreign exchange rates. A 10% fluctuation in the US dollar would not have a material impact on the results of the Company.

Interest Rate Risk

Interest rate risk refers to the risk that fair values of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company does not have material financial assets or liabilities that are exposed to fluctuation of interest rate. As a result, the exposure to interest rate risk is not significant.

Capital Management

The Company manages its capital structure and adjusts it, based on the funds available to the Company, in order to support the acquisition, exploration and development of exploration and evaluation assets. In the management of capital, the Company includes components of shareholders' equity. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The business operated by the Company currently is in the development stage; as such, the Company is dependent on external financing to fund activities. To carry out planned operations and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. The Company is not subject to externally imposed capital requirements. There were no changes to the Company's approach to capital management during the year.

Financial instruments

The fair value of the Company's assets and liabilities approximate the carrying amount.

TRACESAFE INC. (FORMERLY BLOCKCHAIN HOLDINGS LTD.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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*(Expressed in US dollars)***10. GENERAL AND ADMINISTRATIVE EXPENSES**

	December 31, 2019		December 31, 2018	
Insurance	\$	45,887	\$	29,731
Meals and entertainment		919		470
Office supplies		14,370		493
Travel		10,637		44,429
Other expenses		2,349		5,187
	\$	74,162	\$	80,310

11. CONSULTING FEES

Consulting fees in the prior year related to the fees paid to third party software developers for the development of broad-based blockchain indexing products. There was no such activity in the current year.

	December 31, 2019		December 31, 2018	
Consulting fees	\$	-	\$	115,663

12. DISPOSITION OF SUBSIDIARY

On April 28, 2018, the Company's wholly owned subsidiary, Great Hoard Holdings S.a.r.l, disposed of its shareholding in AMZ, a company organized under the laws of Mongolia, for consideration in the amount of \$1.

Consideration	\$	1
Less:		
Net investment		(1,250,916)
De-recognition of assets and liabilities		1,436,877
De-recognition of non-controlling interest		(355,632)
Legal expenses		(2,781)
Loss on disposition	\$	(172,451)

TRACESAFE INC. (FORMERLY BLOCKCHAIN HOLDINGS LTD.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in US dollars)

13. DISSOLUTION OF SUBSIDIARY

On November 12, 2018, the Company's wholly owned subsidiary, Jucca Holdings Ltd., dissolved its shareholdings in its subsidiary, Great Hoard Holdings S.a.r.l, a company which had been incorporated in Luxembourg.

Write-down of investment	\$	1,324,600
De-recognition of assets and liabilities		(1,278,917)
Loss on dissolution	\$	45,683

14. SUBSEQUENT EVENTS

On January 15, 2020, the Company awarded 4,250,000 performance shares awards to an a director of the Company. Each performance share represents one common share and vests upon satisfaction of certain milestones and over 3 years.

On January 17, 2020, the Company loaned \$150,000 to EQITrade Limited and accepted a promissory note in return. Payment is due on demand with 30 days notice.

On March 2, 2020, the Company completed a non-brokered private placement of 1,097,213 common shares for proceeds of \$246,454 (CDN\$329,164). In connection with share issuances, the Company paid a finder's fees of \$1,572 (CDN\$2,100).

On May 12, 2020, the Company acquired a self-quarantine monitoring technology suite known as "TRACESafe" through a newly formed subsidiary named Tracesafe Technologies Inc. for a cash payment and contribution of USD\$650,000 and 4,516,395 non-voting common shares in the capital of Tracesafe Technologies Inc. (the "Tracesafe Common Shares") were issued to the vendor, WiSilica Inc. ("WiSilica"). Subject to certain voluntary conversion restrictions the Tracesafe Common Shares are exchangeable for 4,516,395 common shares in the capital of the Company.

In addition, WiSilica received an aggregate of 1,483,605 preferred shares in the capital of Tracesafe Technologies Inc., which may be converted into an aggregate of up to 19,286,865 Tracesafe Common Shares, upon satisfaction of three separate performance milestones relating to the commercialization of the TRACESafe assets. Such Tracesafe Common Shares are, subject to certain voluntary conversion restrictions, exchangeable for an aggregate of up to 19,286,865 common shares of the Company.

The "TRACESafe" self-quarantined monitoring technology includes a license for the use of a location-aware IoT platform, all customer and contact lists, inventory and all other related contracts.

TRACESAFE INC. (FORMERLY BLOCKCHAIN HOLDINGS LTD.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in US dollars)

14. SUBSEQUENT EVENTS (Continued)

On April 29, 2020, the Company closed a private placement by issuing 5,352,330 units for proceeds of CAD\$1,605,699. Each unit is comprised of one common share and one-half of warrant, with each whole warrant exercisable into one additional common share at a price of CAD\$0.50 for 2 years.

The recent outbreak of the coronavirus, also known as “COVID-19,” has spread across the globe and is impacting worldwide economic activity. Conditions surrounding the coronavirus continue to rapidly evolve and government authorities have implemented emergency measures to mitigate the spread of the virus. The outbreak and the related mitigation measures may have an adverse impact on global economic conditions as well as on the Company’s business activities. The extent to which the coronavirus may impact the Company’s business activities will depend on future developments, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken in Canada and other countries to contain and treat the disease. The effect that these events will have such as the ability for the Company to raise capital, the Company cannot determine their financial impact at this time.